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*Race, Retirement, and Reform*

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Panel 2:

*Savings, Investment, and the African-American Community*

Moderator: Derek McGinty, Anchor,

ABC News "World News Now"

Panelists:

Mellody Hobson, President, Ariel Capital Management, Inc.;

Jesse Brown, President, Krystal Investment Management;

Tony Brown, President, Tony Brown Productions;

and Rev. Alexander Hurt,

Kingdom Church of Brockton, Massachusetts

The Cato Institute

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## P R O C E E D I N G S

MR. MCGINTY: If you could take your seats, we'll get started with this next phase of our program.

My name is Derek McGinty and I'm going to be the moderator for our next conversation about savings and investment in the African American community. We have a very distinguished panel this morning and I think the discussion is going to be really good.

I'm just going to note for you the format in case you don't know. Each person is going to talk for 10 or 12 minutes -- 10 or 12 minutes, Tony -- and then we'll open it up for questions and comments from the audience.

So, without further ado, I'll introduce our panelists one at a time and they'll come up and talk for a few minutes to us. Our first speaker will be Tony Brown. He is host of the award-winning PBS program, "Tony Brown's Journal." He's the author of two books, "Black Lies, White Lies: The Truth According to Tony Brown," and "Empower the People: The Conspiracy that is Stealing Your Money and Your Freedom."

Ladies and gentlemen, Tony Brown.

(Applause.)

TONY BROWN, PRESIDENT,

TONY BROWN PRODUCTIONS

MR. TONY BROWN: Thank you very much. We have, as the moderator said, 10 or 12 minutes. And I certainly will not be able to deliver a coherent message in that period of time. So, I will give you some scattered thoughts, and I have handout, if you would like it later, that will give you some sense of what I have in mind.

I have two primary interests that I have developed over the years, and they fit under the rubric of market solutions and wealth creation. Savings, in terms of any community, is a phenomenon and a byproduct of the culture of the community and the context in which the culture creates wealth. Wealth is not money. Wealth is not being rich. Money is one form of wealth. And while I do not think money is the most important thing in the world, I do rate it right up there with oxygen.

(Laughter.)

MR. TONY BROWN: If you understand the context of money, then you understand that money is a byproduct of human capital, human resources, primarily education and social capital, the ability of the community to work together and build institutions. Any time you have a community that builds

institutions that unify and that develop highly educated people, they have high incomes.

Then when you get to market solutions -- an article appeared last week in USA Today and I'm sure many of you saw it -- and the headline said something to the effect that Asian businesses have buried black businesses. Asian businesses have buried white businesses, too. And it is absolutely a non sequitur to compare the progress or performance of Asian Americans with African Americans. It's like apples and oranges.

If you compared white people and Asian people, white people would be in second place, as they are. Asians have the highest income, whites second, Hispanics third, blacks fourth. And there are very obvious reasons for it.

If you took any group of people and they had the same history as African Americans, you'd get the same result that you get today from African Americans. You don't get the result from African Americans because they physically look different. You would have to be kind of stupid not to know that only 6 genes out of 40,000 genes determine your skin color, and that every white person in the world has an African DNA.

Now, if you've got any common sense at all, you have to understand that you're dealing with behavior based on culture and history -- and primarily your culture. If you come from a culture that emphasizes education, you're going to have high

income. If you come from a culture that de-emphasizes it, that emphasizes hip hop, drugs, boogie-woogie, and so forth, you're going to get low income.

In the London Guardian last week they had an article, where the black leaders in London are asking the police to come in now and put some of the young black thugs in jail. This is the black community leadership. Because they now have brought over, they say, the African American culture, that subculture of hip hop. And now the young black Englanders do not want to study. They don't want to go to school. They want to do the hip hop thing and so forth.

That has nothing to do with being black, absolutely at all. So, basically, if we're going to talk about savings rates, if we're going to talk about economics, you have to talk about behavior. And behavior is simply culture, which is simply the accumulation of your habits, good and bad. That's what your culture is. You can modify your culture and you can learn good cultures and you can learn nonproductive cultures.

So, in that context, ladies and gentlemen, when we get to the development of the black community, there's only way it can happen. And that is African Americans are only out of slavery for a little over 300 years. Asian Americans have a tradition of doing business that goes back thousands of years. And not only Asians. I'm not picking on Asians. Any group

that's had its culture intact is going to have things that you've learned generation after generation.

In my generation, most blacks in my generation don't know their great-great grandfathers. We don't even know what so-called racial lineage we come from let alone somebody passing along savings habits, and at breakfast learning that "urban" is a synonym for "city" and so forth. Those phenomena are culturally based, and the context has to be historical.

Now, if you put the performance of blacks in the context of history, you will see that black people are an extremely overachieving group. I mean, if you read the Washington Times about three or four weeks ago, a phenomenal four-part story, a study they had in terms of black income, it's phenomenal that blacks are even in the picture at all. That does not -- I want to repeat -- that does not except black people from what black people have to do in order to be number one.

See, I've been black and I've been black all of my life, and I've never been interested in being number two. I don't like "Third World" and I don't like "minority." I like winning. And I know what this game is all about.

(Applause.)

MR. TONY BROWN: This game is about who's going to get the most money, and money equals power. If you want to know what freedom is, it's real simple. Black America doesn't have it

straight. They're talking about all kinds of fads -- Ebonics, and reparations. Those are fads. And busing. None of that stuff is going to work.

As a matter of fact, what I say about busing, I don't believe in busing and never did. I don't want to be assimilated. I like being what I am. I respect other people for what they are, but I don't believe that sitting on a bus sending this little African across town so he can sit next to this European, and these good white genes jump on the little dummy's body and he'll learn to read, write, and count. That's kind of stupid. It's stupid because only 26 percent of white people finish college; 46 percent of Asian Americans finish college. So, if you want to bus Tony Brown, you bus me to Chinatown.

(Laughter.)

MR. TONY BROWN: So, if you want to play the race game, which we belong to a human race -- and I know nobody wants to hear that, us being human beings, because we'd have to go back and really expose all the frauds in history who have taught us that we belong to all these different races so we'll behave and we'll have separate interests so we'll do this Hegelian dialectic dance of fighting white people versus black people, women versus men, Asians versus this, Islam versus Christianity. Oh, we love that stuff because that's what we've been taught. We're like robots. We've been just set up to fight one another.

Now, if you don't want to unlearn that, you have to remain in different races. And I used to be black. Now I am a human being of African ancestry who happens to be an American. Because at one time I was afraid to identify myself outside of being black. I no longer am afraid to identify myself for what I am. I am a human being, and God created me. And everything else flows from that. If I remain in a box, if I remained with a group, then I am opposed to some other group. Therefore, I cannot express myself the way I want.

And as long as the definition is a race definition, and Asians perform this way because they're Asians, whites perform that way because their white, African Americans perform that way because their African Americans, you never ever are going to have wealth creation. Wealth creation is market driven. It's a real simple thing. And if you look at any group, you will find that those groups that know what wealth creation is do very well in every aspect of society.

Number one, business success has three components. One, you have to have information. That's the most crucial part of business. If you don't have information, you don't even know what business to start.

The second thing you have to have is a product or service that people need and use, not one that you want them to use or that you like.

And the third thing is you've got to have a plan, and the plan has got to be simple. I created what I call the Caribbean and African American Trade Zone. And I have a little source here with me today. If I don't have enough for you, if you want it -- as a matter of fact, we're having the kickoff in Grenada in the middle part of April. I said I don't have enough time to make sense, and I'm sure by now you know I'm not making sense. But I'm touching this points because in 10 minutes or whatever it is, there's not enough time.

We have one of the major resources of the world. What the Saudis have done with oil, we will create with spices. We have one-third of the world's supply of spices. The European countries now have private armies to go into Indonesia and bring out the spices. The spices for us just fall off the tree and the farmers pick it up, and the group I'm with has built a \$30 million processing factory in Grenada, and we will share it with anybody in America.

Specifically, we're targeting the African American community and black churches and black organizations. So this \$1 billion will flow through the hands of these churches and these nonprofits and these other groups, which in turn do the good in our community. They're the ones who help the children. They're the ones who help the elderly. They're the ones who build the homes.

And those people who are black fat cats and white fat cats who do real well, we will pray for you in church and wish you well. But the focus will not be the talented tenth. The talented tenth has proved that it cannot change the economic or the social or the political condition of the black community. But the talented tenth is absolutely necessary to lead and develop a plan that can lead the masses into equality and justice in this country. It's an indispensable group, but it should not be the focal group.

So, our plan is to distribute the money through the institutions, because the people who are making the money no longer have the product. The product has been shifted. Because now we do the processing and we have the product. As I said, I have a handout that I'll give you if you want the details on that at the end.

But the bottom line and my only contribution here today -- because the people on the panel are people who are factual, they have information. They are traditional people for the most part. I am none of those things. However, my observation is that if we do not find a market-driven solution the way other ethnic groups have found a market driven solution -- it's all academic and it's about you and your children doing well and the black community not doing well at all. That's what it's going to be about.

If you don't find a market solution, a solution that is driven by what you consume -- black women, 6 percent of the American population, consume 36 percent of all beauty and hair care products. And in the last 20 years, the number of black cosmetic companies has fallen by 80 percent. Now, that just doesn't make sense.

If you look at movies, 50 percent of the people who attend movies are urban blacks, and Hispanics to a lesser extent. And blacks are begging for jobs in movies. There's no logic in that. They're not using the marketplace. The marketplace in the black community is not being organized and it's not being used to drive and recycle the wealth of that community. It's a real simple proposition. No other proposition is going to work.

In this country, the Chinese have a niche market in restaurants. The Vietnamese have a niche market in nail care salons. The Indians, 1.5 million total in the United States, own 52 percent of all overnight hotels and motels, 37 percent of the hotels, and 50-some percent of motels. And that's all Indians. There are only 1.5 million Asian Indians, and a small group in that population, with a surname "Patel," is doing all of that. So, it's about the members of your group that have a market attitude that determine the income of your group. And the income of your group determines the political ability and prowess of your group.

Take this article in USA Today. What did it say? Now that Asian Americans have this phenomenal foothold, they are now translating it into political power. Blacks have sat out this business cycle. Blacks have been consumed with all kinds of tangential ideas and concepts. And these groups have come here and they have focused on the marketplace. They have now organized. And they have done well in terms of accumulating wealth. They are now going to translate it into political power. And blacks who were exclusively focusing on political power, now they will lose relatively what they already had.

So, it's a lose-lose if you don't use the market, and it is a win-win if you do use the market.

Thank you.

(Applause.)

MR. MCGINTY: Our next speaker is Mellody Hobson. She is President of Ariel Capital Management, out of Chicago. It is an investment management firm that handles various things -- mutual funds and other investments. I saw this in her bio and I had to ask it if was true. She says it is. She was an intern at this company in college and now she is President. And now she is here to talk to us.

Mellody.

(Applause.)

MELLODY HOBSON, PRESIDENT,  
ARIEL CAPITAL MANAGEMENT, INC.

MS. HOBSON: Thank you very much. I am delighted to have the opportunity to be here today and talk to you a little bit about some of the things we're thinking about when it comes to African Americans and investing at Ariel.

I have to say, when I started my career at Ariel, which was 11 years ago -- and if you count when I was an intern, 13 years ago -- there were no panels on savings and investing in the African American community. So, in these 13 years, I would have to say we have come a long way from where we were. And certainly, as a firm, we know a little bit about this topic, because when our Chairman John Rogers started Ariel in 1983 we were the first minority-owned investment firm in the nation. And it was a bold move on his part. He was 24 years old, and he was knocking on the doors of pension funds around this nation, asking them, with no experience and no clients and no money under management, to take a chance on his ideas of how to make money in the stock market.

And as you might expect, in the beginning, there was a great deal of reluctance. But John had an unusual story that actually ties together with what I want to talk about today. John's father, when he was 12 years old, instead of buying him

toys, bought him stocks every birthday and every Christmas. And I put the huge emphasis on "instead of." He came from not a wealthy family but a family where his father was a child of the Depression and an orphan in the Depression. He said the one thing that he was going to be sure to do was to teach his son the importance of understanding money, having gone through obviously the devastation of the Depression.

And so he says, in the beginning, it was awful. You're 12, you run to the tree, and you get a white envelope. And in the white envelope is IBM shares. There is nothing exciting about that when you're 12. And he said it was bad enough on Christmas day having to have that stiff upper lip about having gotten the stocks for his present, he said it was worse when he had to go to school and tell the other kids that he got IBM shares when they got GI Joe. But the really neat thing was that his father let him keep the dividend checks. And he said it was like free money. He was 12 years old and he said two things don't happen when you're 12 -- you don't get mail and you usually don't get checks with your name on them.

And his father said he could spend the checks -- it was 50 cents or \$50 -- on anything that he wanted. And he quickly became obsessed with investing. He said he started to want to reinvest all the dividends and all the checks so that he would

have bigger dividend checks. And it became this life's work that ultimately became our company.

So when he started in 1983, even though there were no other companies like us, there were no other 24-year-old black guys calling on pension funds in this country and wanting to start mutual funds the way John was, he had a passion for investing that started very early.

A few years ago, we started thinking about our community when it comes to savings and investing, based upon the pioneering status that we've had as an organization. And one of the things that that we learned and noticed when we went out around the country and talked about the stock market and investing to our community, people weren't very interested originally at all. Now, this is of course pre all the bull market that we saw in the late nineties and dot-com and all those other things. There wasn't a lot of interest when he went around. There were not panels like this.

And so we said we have a responsibility, as a firm, to get this topic of saving and investing out there. And the way we thought best to do that is to start a survey. So we starting something called the Ariel Black Investor Survey back in 1998. Ultimately, Charles Schwab & Company joined us as a cosponsor, starting in 1999, and our survey has since been called the Ariel/Schwab Black Investor Survey.

When we did this research, there was no information in this country -- because I looked everywhere -- on African American investing habits. And we realized that the information that we learned hopefully would become a wakeup call for our community. We surveyed 1,600 people that made \$50,000 in income or higher; 800 of them were white, 800 of them were black -- the same income level, \$50,000, which in our country is considered high income.

We asked them: Do you own stock or stock mutual funds? This was in 1998. Fifty-seven percent of African Americans said that they did versus 81 percent of our white counterparts. A gigantic gaping hole in difference in stock ownership, of course. And again, this is at the highest levels of wealth in this country.

We looked at the wealthiest blacks. We cut the survey and said let's just look at blacks and whites who make over \$100,000 a year. In that cut, 38 percent of African Americans did not own any stocks at all, compared at that same level to 22 percent of our white counterparts. So, again, even at this over \$100,000 level, where there was vast improvement, there was still a significant difference between us and our white counterparts.

We were less likely, as you might expect, to have accounts, therefore, with mutual fund companies and brokerage firms and have money with CD's and things like that versus our

white counterparts. We also found out that the generation that was supposed to change everything, generation X, people like me, under aged 35, who are growing up during a time when the stock market is front page news and more of a story than for our parents, my parents, grandparents and the like, even among younger blacks, we found that there were significant differences between younger blacks and younger whites.

And, more specifically, we asked, "Do you own stock or stock mutual funds?" to these younger blacks and whites who made \$50,000 in income or higher -- so very prominent in their respective communities -- 43 percent of African Americans had money in the stock market at that age group versus 78 percent of our white counterparts. So, again, younger, more knowledge, very well-to-do when you think about their age and that income level, and yet very far behind our white counterparts.

So the bottom line from our lack of ownership in stock and stock mutual funds was that we have less wealth. This is not a "gee whiz" statement probably. But we wanted to know exactly how much wealth did our community have versus our white counterparts at that income level. So we said: Tell us how much you have, throw everything in. African Americans, on average, said they had \$117,000 in total wealth. Our typical white counterpart had \$224,000 in total wealth. So we had nearly half the wealth of our white counterparts making the same income. And

we attributed that big shortfall to our lack of saving and investing, and specifically in the stock market.

We tried to figure out why we were under-invested. And just hitting the highlights of what we found, there were five factors that we found in our community. The first and foremost was knowledge. Two-thirds of us said we do not invest because we don't know enough. That makes sense to me. If you are working very hard every day for your money, you're not going to go off willy-nilly and do something you don't understand.

And then let's think about it. In America today, you don't learn about the stock market and investing in school. And so as a result of that, you tend to learn about it from your family. And if your family doesn't invest, you're already behind the eight ball.

The second issue was trust. We do not feel comfortable walking into big brokerage firms. We don't understand the stock market, so therefore we don't trust it. So a lot of us said we just have a fear of the whole area, and therefore don't want to put our money at risk. There is a lot of misinformation that keeps us out of the market, things like us thinking penalties are too high for withdrawing our money, we won't have access to our money. Misinformation that you have to be very wealthy to invest. And of course that is no longer at all true in this

country. There are mutual funds that allow you to invest for as little as \$50 a month.

We found there were some cultural factors, which Mr. Brown already mentioned. There are just differences between blacks and whites in our culture. We tend to be more conservative as a community. I attribute that, again, to many of us making money for the first time and not wanting to risk it. We tend to have a bias towards real estate as an investment. We asked why. And it's because you can go see it, touch it, know it's there. The stock market is this amorphous place that you can't really identify or see.

And we also favor insurance products. We have much higher life insurance policies than our white counterparts at the same income level. And we attributed the insurance product issue to the insurance industry being extraordinarily effective in marketing to African Americans. And of course there have been lots of black insurance executives who have been role models for others coming through and growing up, as a sign of wealth and wealth creation.

And then lastly, the fifth issue that we found has kept us from investing is exposure. I mentioned that exposure factor as it related to knowledge in terms of education, but exposure also in terms of knowing people in the industry that we can turn to to help us. And Ariel is a perfect example. I told you, in

1983, we were the first minority-owned money management firm. Today, 19 years later, we are one of probably a handful -- no more than five or six -- black companies in the country that have mutual funds in the newspaper every day. There are 9,000 mutual funds in the newspaper every day.

I always make the joke that when you grow up and you go to a good school, the typical black mother doesn't tell you, you should grow up and be a portfolio manager or an investment banker. They typically tell their children they should be a doctor or a lawyer, because we know doctors and lawyers. We don't know portfolio managers and investment bankers.

There was a survey done in 1996, and it surveyed how many African American professionals were working just as stock brokers in this country. At that time there were 90,000 stock brokers and 600 were black. So, again, when you think about that lack of exposure, you can see very quickly why we might be behind.

Speaking specifically about retirement in the two minutes I have left, I do want to give you something relevant to this topic of Social Security. We asked the survey participants: How much do you have specifically saved for retirement? The typical African American had \$42,000. The typical white American had \$88,000.

We asked: What is your number one reason for saving and investing, if you invest? White America said retirement. Black America said for our children's education.

We asked specifically: Do you think Social Security will exist when you retire? Two-thirds of both groups said no. And yet that has not changed our investing habits or put retirement on the forefront of our list or our goal for saving and investing.

It was interesting, one-third of the blacks that we surveyed who made over \$100,000 in income had less than \$5,000 saved for retirement -- one-third of the blacks that made over \$100,000 had less than \$5,000 saved for retirement. So these numbers were scary, as you might expect.

The net results of this information that we found at that point was that clearly we were behind. This is not surprising. There is a lot to be done. But we hope that this would be a wakeup call for our community.

Jump ahead to last year, when we did the survey for the fourth time. One of the things that we found is the gap has narrowed. And that is something that we think is largely due to the bull market as well as the proliferation of 401(k) plans in this nation. When we asked, "Do you own stock or stock mutual funds?" 69 percent of blacks said that they did versus 82 percent

of our white counterparts. You remember when we first did the survey that number was 57 percent. So we have come a long way.

We found a very significant difference, when we tried to figure out, and dig deeper and deeper, as we've done every year, why there is a difference. What makes people invest? Is there a difference between what makes a black person invest and what makes a white person invest? Our study showed there is a difference.

African Americans tend to invest and to be more likely to invest when we make over \$100,000 in income or more. White Americans tend to be more likely to invest after the age of 35. So we said, for blacks it's wage, for whites it's age. For investing in the white community, it's typically thought of as being a right of passage. In the black community, investing is thought of as something of status that happens when you have a lot of money already. Of course, what that means is we forego many years of having the opportunity of our money compounding, because we are waiting for that big income level, when we think that we have arrived and therefore are ready to invest.

So the bottom line is our survey has enlightened us tremendously. Hopefully this information has enlightened you also. And it has continued us on the mission that we have at Ariel to make the stock market a subject of dinner table conversation in the black community.

When Mr. Brown spoke of members of the group having a market attitude, or of groups having market attitudes, and spoke specifically about different ethnicities in this country, we hope that black Americans get a stock market attitude.

(Applause.)

MR. MCGINTY: Our next speaker is Mr. Jesse Brown. He is President and CEO of Krystal Investment Management, a company in Chicago. He is also author of a book called "Pay Yourself First," which he told me I should read before we came up here but I didn't have time. He aims his advice in his book and in his work at working-class African Americans, whom we have just heard are reluctant to get involved in the stock market. And he says, hey, you need to be dealing in mutual funds and money markets and 401(k)'s and all that stuff.

Here is Jesse Brown.

(Applause.)

JESSE BROWN, PRESIDENT,  
KRYSTAL INVESTMENT MANAGEMENT

MR. JESSE BROWN: As Mellody talked about stock brokers and financial advisors, I'm one of those 600. And today we have talked a lot about the theory of investing and what it should be like and talked about a lot of statistics. Basically, what I

hope to bring to this panel and to this discussion is what it's really like to face someone and actually talk about saving and investing.

It's really a very difficult thing to sit across the kitchen table and talk to a parent about their child getting ready to go to college, and not having any saving or investing. It is an extremely difficult thing to actually meet with someone and start talking to them about their loved one, who is their mother or their aunt or their grandparent, who has to go into some sort of assisted living or daycare or retirement home and not having enough money to actually do it. And then to actually talk to them about preparing for their own personal retirement while they're taking care of their children and their loved ones at the same time, it is kind of a sandwich situation for them. So that is kind of the role that I find myself in and what I hope to bring to this discussion.

Another thing that has been said is that African Americans are very spiritual people, very culturally oriented people, people who really are involved spiritually in what they want to do with their money. And as such, I begin every day with a small prayer. And I was kind of surprised that any gathering of African Americans would not have begun with some sort of a devotion of some sort, but maybe it's because we're here at the Cato Institute. I don't know. Watch out, Reverend.

(Laughter.)

MR. JESSE BROWN: I guess maybe that's why Reverend Floyd Flake was also invited today and I'm replacing him.

The prayer that I start out with every morning -- and you may want to join me in this moment of meditation is -- Dear Lord, please let me outlive my money. Amen.

You see, that's all I really want to do is somehow make it in life to outlive my money. And living to outlive your money is becoming more and more difficult. To me, the American dream is the ability to get a good education, the ability to get a good job, and the ability to retire comfortably. Unfortunately, that whole business about retiring comfortably is becoming harder and harder to do.

The gap between what you earn and what you are able to take with you is becoming more and more difficult. As we discussed this morning in the first panel, this whole question of Social Security is a very interesting issue in terms of privatization. Right now you could go through your work life -- and we talked about one individual and another individual, both starting out at the same time, matriculating through their career, and when it's time to retire, guess what, they both get that small \$1,500 or so Social Security check. Well, they're both in poverty.

But through a privatization idea, if one particular person is educated and puts his money into, say, an equity account and the other person, who has a cultural bias, who wants to make sure that that Social Security, that guarantee, that retirement income is safe, firm, and not to be worried about in any way whatsoever, puts his money into a guaranteed investment account or a fixed account or something like that and earns less money, guess what? At the end of their working years, one will have, say, \$1,500 or \$2,000 and the other one will have \$700 or \$800. And guess what we have then? A whole new class of poor. Which creates another problem for our government and for all of us who are taxpayers.

That's why I embarked upon writing my book, "Pay Yourself First." It's what I consider a financial guide to success. Essentially, what I do when I go around the country, talking to audiences like this, I ask the question: What is your most important bill?

I get all sorts of answers. I get answers like, oh, maybe it's my house note. It could be a car payment. It could be your tuition payment, if you're a young person just out of college, or something like that. I get all sorts of answers to that question. But the real answer to that question is yourself.

I took an airline trip here today, and the flight attendant, when talking about emergency procedures, said one very

important thing. In case of an emergency, when the oxygen mask comes down, do what? Cover yourself first before you help your spouse or your child or anyone else. That is why I think it is so extremely important that we pay ourselves first and we make ourselves our most important bill.

That is why, in the 1970's, when the Tax Reform Act put together the individual retirement account, or Section 4 of the IRS Code that started up 401(k) programs, it was just kind of a blessing in disguise. Because somehow in America we learn how to spend 110 percent of our income, through one means or another. But somehow, through this ability to have money taken out of your gross and living off your net is the kind of thing that really develops that kind of discipline that provides a kind of income.

I'll read a paragraph from my book, where I say:

Consider this simple example. Suppose the day you were born your parents deposited \$1,000 into an account. Let's further assume it was invested at a modest 6 percent rate of return. If that investment was untouched until you turned age 65, that initial \$1,000 would have become \$44,000 without ever adding another penny.

That's the whole theory of compounding. How many of us really understand that? How many of our parents? How many times have we actually even done it for our own child? We are in a very distinguished gathering today, so I would ask for a raise of hands of everyone who has an individual retirement account or are prepared for their own retirement.

But, you know, there's an old saying that more people spend more time planning their summer vacation than they do their financial future. So I would encourage those of you to tell your friends -- of course, you already are doing this -- to get a financial advisor in life. You have a doctor in your life. You have an attorney in your life. You have a tax preparer. But do you really have a financial advisor in your life?

The real problem in terms of this whole business of personal finance and financial growth is I've outlined it as being five basic things. One is the lack of understanding and how money actually works. Secondly, the lack of financial goals. Third, the lack of a financial plan. And four of course, overpaying for the most basic items. And of course number five, waiting and doing nothing for far too long.

I have a Web site. It's called [www.investinthedream.com](http://www.investinthedream.com), after my second book, "Investing in the Dream." And I list 50 ways to save \$50. And the reason why I picked \$50 is \$50 is a pretty easy thing to save. Take a young person, who is 25 years

old. If they would simply save \$100 a month through their working life, up to age 65, they would be a millionaire. And you say, \$100, where in the world did you get the number \$100 from?

Well, I started out with this number. Have you ever heard of a combo meal -- a hamburger, fries and a Coke? What does that cost, about \$5, \$5.65, \$4.85, something like that? Well, I do a lot of radio programs, and I'm going to leave here and do the Tavis Smiley Show in a few minutes. And Tavis asked me one day, Jesse, what is the most difficult thing in life to do? And I said, well, Tavis, maybe dieting.

(Laughter.)

MR. JESSE BROWN: And he said, no, no, really, what is the most difficult thing to do? And I said, well, it's saving. You know, saving is one of those next Monday morning kind of activities. So I came up with the idea of a combo meal. If I just skip lunch each day and brought my own lunch to work, then I would save \$5 a day. Five dollars a day over the course of a week is \$25. Do we have any economists in the room? What do we do with that if we do it for a month? Four weeks, that's \$100, right?

Okay, \$100 from age 25 to age 65 is \$48,000; \$48,000 invested in just a normal bank account or something like that, paying 4 percent or so, is about \$114,000. Invest that same amount of money in the Ariel Mutual Fund or some other growth

mutual fund, paying an assumed rate of return of around 12 percent, you have \$1,300,000. Now, that's real money.

That's what we have to instill in our society and our psyche, the whole question of saving and investing. That's what I think the importance of this conference is really all about, in terms of understanding the discipline and the importance of saving and investing.

And as I sit down, I want to tell you a little story. A lot of people have been talking about the privatization of Social Security and that's why we're here today. But, in doing some research, I finally discovered exactly how we came up with this age 65 as a retirement age for collecting our Social Security checks. Now, I'm in a very learned audience today because we are here to talk about Social Security, so I just assume everybody here knows that answer. But I saw a couple of interns in the back of the room that may not know the answer so I'll share it with them.

Back when we were putting together the Social Security system, the founding fathers of the system got together and they met for about nine months. I mean, they met for a long time. We have like a one-day conference here. Back then one-day conferences did not exist. They were like nine-month conferences. And they had luncheons like we're going to have

today and they had banquets and they carried on for a long period of time.

After a while, the chairman of the committee decided that he would call a hearing, and he asked an actuary to come in. And we have some actuaries here. As a matter of fact, we have the actuary association president in the audience today. So you know what an actuary is. An actuary is someone who works for an insurance company who determines the life expectancy of individuals so they can figure out how to charge premiums.

That actuary, in a brief five-minute statement, said, Mr. Chairman, the life expectancy of the average American today is 62 years old. Right then the chairman said, wonderful, 65, that's when we'll hand out Social Security checks. In other words, they never expected us to live long enough to ever get one.

Having said that, medical science has played a dirty trick on those old men, because, guess what? We're living much, much longer now than ever before. As a matter of fact, you almost have to beg the doctor to die. They have a pill for this and an injection for that and a tube and all that sort of thing. So it has become extremely important that we prepare for our retirement years. Because many people are doing what? Preparing to retire at age 65. As a matter of fact, I think the survey

shows that people would like to retire even earlier. I think it was 58 or 60 years old.

Well, guess what? We are not going to live to age 65. We are going to live to be age 75, 85. So if you don't have 40 years' worth of retirement money set aside, guess what? You're going to be -- kind of imagine this -- old, sick, broke. Not a very pretty picture, is it?

So that's why it is extremely important that we become knowledgeable about this whole question of saving and investing. And with the knowledge comes the trust and comes our involvement. I would be more than glad to answer any questions that you might have during the question-and-answer period.

Thank you.

(Applause.)

MR. MCGINTY: Jesse, I'm glad you brought that up. As soon as our next speaker finishes, we will be opening up for questions from the audience.

Our final speaker is the Reverend Alexander Hurt, who told me before we got this thing started, you know, you always save the pastor for last -- so we did.

(Laughter.)

MR. MCGINTY: He is the Pastor of the Kingdom Church of God in Christ in Brockton, Massachusetts, and he is the founder of the Hurt Inner-City Ministries. And I asked him, what does

that do? And he said, we are management consulting for faith-based organizations. I'm a broadcaster and I don't understand these kind of things. I asked, what is that? He said, we're Ernst & Young for churches. I got that.

Reverend Hurt.

(Applause.)

REVEREND ALEXANDER HURT,  
KINGDOM CHURCH, BROCKTON, MASSACHUSETTS

REV. HURT: Thank you so much for the invitation. It's not often that Pentecostal preachers get an invitation to speak at the Cato Institute.

(Laughter.)

REV. HURT: I want to say that in the program I was very happy to see that I was going to be one of only two preachers here, until Rev. Brown showed up.

(Laughter.)

REV. HURT: I've been telling him to calm down, you know, I have the degree, he has the program.

(Laughter.)

REV. HURT: I want to spend a little time refocusing back on Social Security, because I do think that this is a very, very strategic time for the African American community. And

before I do that, can I just make one small caveat which could be taken as a footnote. I'm not very high on using the term "African American." I like the term "black" much better, because I think it leads to some level of cultural confusion. So I will just say the black church and the black community, but you all know what I'm talking about.

I think that the potential that we have here is the potential for reform in three primary areas. And given that I'm a preacher, I like to wrap this all in the Bible. So, excuse me, but this is your Bible study lesson for Tuesday night, just in case you're not going tonight.

In the Book of Matthew, the 25th chapter, there is a parable that is told about three workers, three servants, who are given talents. And two of the three workers take the talents that are given by the master and they take them to the marketplace and they double what they're given. First, they save what they've been given. Secondly, they take it to the marketplace. And third, they double it by investing it in the marketplace.

When the master returns, he tells the three servants to come back in. And two servants say, you know, I took what you've given me master and I saved it, I've invested it, and I doubled it. There is one other servant who was given only one talent. And the little that he was given, instead of taking it to the

marketplace, what he did is he buried it in the ground. And for those of you who know the Scripture, you know that the person who buried the talent in the ground is condemned. And, more than that, the little that he was given is taken away from him.

And what we have to recognize is the reason why our community should be saving is because you should take your little crumbs and collect it so that it may become a loaf. You all need to say something to that.

(Laughter.)

REV. HURT: Listen, it's about noon. I'm on a stage. I've got a microphone. I'm getting flashbacks.

(Laughter.)

REV. HURT: Sunday wasn't that long ago.

I think that in order to take advantage of the opportunity that privatization of Social Security affords the African American community, we have to look at reform in three areas. First, we have to look at political reform. The reality is that black people don't trust politicians. And if I could go back to the Bible one more time, the black community asked the question: Can any good thing come from D.C.?

And the answer in this particular case is yes. Because ignorance is not an excuse for inaction. We know one thing about Social Security. And that is it is collapsing in our presence. And we are morally obligated, as leaders of the black community,

to do something. And we can argue about what the something is, but what we cannot do is wait until the thing collapses so that there is no support for people who are in need.

I want to tell you that we have a responsibility, as the learned among us, to do something that protects the least, the lost and the left out, to make sure that there is something for people when they're retired. And in order to do that, what we have to do is to start teaching black people to ignore personalities and look at policy. There can be good things that come from Republicans.

(Applause.)

REV. HURT: The two black Republicans in the room are clapping.

(Laughter. Applause.)

REV. HURT: We've got a third Republican. So, all of the people who voted for President Bush are all in this room right now.

(Laughter.)

REV. HURT: There is a teaching that we have to do to our community around political reform, that we have to ignore whether there is a "D" or an "R" behind a person's name and look at the policies that they're supporting, and analyze them based on the effect that they will have on our community.

Moreover, there is a need for policy reform. What that means is that we have a chance to restructure the Social Security Administration, to actually bend down to reach those who are really in need. I think we need to have a serious conversation about means testing. I think we need to have a serious conversation about making sure that we don't have a system that puts itself off as giving equal returns for this equal input.

Guess what? People who have more money are going to have a larger amount to retire on. That's just simple math. What we have to do, though, is to make sure that we don't continue to support a system that guarantees that one-third of the people who work in it will be rewarded with poverty. To me -- because I'm Pentecostal, we can use words like this -- that's demonic. It says you can work all of your life, work hard, and the sweat of your brow at the end of the day gets you nothing.

Thirdly, with politics and policy reform, I think we need reform in terms of our religion. The responsibility that the church has to teach, preach and believe about investments and savings, the power of the pulpit has to be brought to bear against this issue. And for too long we've allowed our churches to be silent around an issue that is guaranteeing power for our congregants.

It seems to me that that is more than an economic question. It is more than a policy question. It is a moral question. We are morally obligated to make sure that the policies of this country reflect and bend towards the hearts of folks who are in need. And the people who have been able to get a piece of the pie are even more obligated to speak up. There should be testimony services where you stand up and share who your investment planner is. You share everything else.

(Laughter.)

REV. HURT: I think that this is a key, key moment. And as leaders, we cannot take black preachers off the hook. They have a responsibility in this debate. And I am committed, particularly because of my age. Because the lack of Social Security that we're talking about is going to disproportionately affect folks who look like me and who are my age. So I don't want to pay into a system that is not going to be there, particularly when there is a moment when we can really begin to think through and to argue through change.

The last thing that I want to say before I take my seat is, brothers and sisters, can we please stop this. We don't have to agree. The thing that gets in the way of black progress is this false notion that, prior to black progress, you have to have black unity. That's a racist notion. It presumes that all black people think alike. We don't. We don't have to agree.

What we want to say is you take the crooked road, I'll take the straight road. As long as we get to the same place, praise God. The reality is that we have a real opportunity to do something that is going to help people who really need our help. And in order to get there, I think that what we have to do is to look at every system, analyze it for what it could do in terms of affecting our community, and engage the leadership of the black community, making sure that they have a focus, a keen focus, on the lives and the effect of these policies on the least and lost and left out.

Thank you.

(Applause.)

(End of Panel 2 presentations.)