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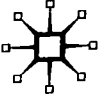
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THE ASSETS PERSPECTIVE  
THE RISE OF ASSET BUILDING AND  
ITS IMPACT ON SOCIAL POLICY

Edited by  
REID CRAMER AND  
TRINA R. WILLIAMS SHANKS

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THE ASSETS PERSPECTIVE

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## CHAPTER FIVE

# THE WIDENING RACIAL WEALTH GAP: WHY WEALTH IS NOT COLOR BLIND

*Thomas Shapiro, Tatjana Meschede, and Sam Osoro*

Researchers began to explore the wealth holdings of households by race in the mid-1980s, when data became available for the first time. The magnitude and implications of these early findings were shocking: most found that, on average, black households owned only a dime for each dollar of wealth owned by white households (Lui, Robles, and Leondar-Wright 2006). This difference was much larger than the prevailing income gap of 60 cents-to-the-dollar. More alarmingly, the racial wealth gap has increased further since it was first analyzed. Our analysis reveals an increase of \$151,000 in the absolute racial wealth gap between 1984 and 2009. This chapter empirically examines the main reasons behind the rise in the racial wealth gap over the past 25 years, deepening the analytic and policy understanding and narrative required to effectively disrupt and reverse this trend.

It is critical, initially, to set forth the context for the racial wealth gap discussion: why it is important, what it tells us about the state of material racial inequality, and a brief conceptual detour exploring the difference between examining absolute gaps and analyzing the pattern of an increasing gap.

### **Existing Research on Wealth and the Racial Wealth Gap**

#### **A Paradigmatic Shift from Income to Assets**

Information regarding household wealth and liabilities has been available for the United States only since the mid-1980s. Prior to the first reports analyzing household wealth in the late 1980s, family income provided the standard, taken-for-granted lens for understanding economic racial inequality. This severely skewed our understanding of the causes of racial inequality—and our efforts to redress it—toward labor market factors. Bringing family wealth into the picture changed the paradigmatic understanding of racial inequality for economics, history, sociology, public understanding, and policy. This change took place in an era in which great pride was taken about the fact that apartheid had been overcome legally and accompanied by changing individual attitudes. But from this point on, the traditional liberal narrative about race in America would never be the same.

The taken-for-granted benchmark for material racial inequality, income, tells us that the typical African American family earns between 54 and 61 cents of income (depending on the year) for every dollar of income earned by typical white families (Shapiro 2004).

By shifting the lens to family wealth, the first empirical analyses showed that, in 1984, the typical African American family possessed between five and ten cents of wealth (depending upon the measure of wealth) for every dollar of wealth owned by typical white families (Shapiro 2004). This vast wealth disparity has policy and historical implications beyond those raised by income alone and suggests more complex and nuanced prescriptions for achieving social and racial justice.

Including family wealth as a critical economic resource necessitated a qualitative shift in the pursuit of democracy and equality. The discussion now needed to focus not simply on addressing a much larger disparity but also on extending the analysis of what brought us to the starting points that were so vast. Traditional understanding and policy approaches had to push beyond market dynamics and human capital to a more comprehensive understanding of how history impacts the present, how state policy impacts the generation and growth of individual wealth, how wealth is accumulated differently by various population groups and in different historical eras, how family wealth is generated and used, and the enduring significance of contemporary institutional dynamics in American life.

The analytic and policy trajectories come from two directions. One trajectory springs from the groundbreaking work of Michael Sherraden's 1991 book, *Assets and the Poor*. Sherraden's legacy in the asset field, as all roads in the current asset field, leads from his scholarly work and his genius for demonstration projects and strategic research combined with tireless, tenacious, and gracious advocacy for asset building. The robust applied and policy agendas built from Sherraden's inspirational work center on poverty alleviation, social mobility, and well-being. Universal, inclusive, and progressive policy features are at the core of these bold and aspiring efforts. The second trajectory comes from an equity perspective and is anchored in sociology, economics, critical legal theory, social policy, and movements for social change. The work of Oliver and Shapiro in the late 1980s and culminating in 1995 with *Black Wealth/White Wealth* set the foundation for a new and challenging understanding of racial inequality in America in the post-Civil Rights era. Analyzing the racial wealth gap forced us to move beyond the uncritically accepted formulaic consideration that equal opportunity leads directly to equal results. It raised fundamental questions about rewards from and distribution of achievement: Was it possible for African Americans to earn their way out of the racial wealth gap? To educate their way out? Or marry their way out? Or thrift their way out? Or even save their way out?<sup>1</sup>

A paradigm shift of sorts has resulted from this body of work that conceptualizes wealth as a fundamental anchor both for sustaining inequality and enabling economic well-being. Today, no serious discussion of poverty, inequality, or racial inequality can take place without a thorough understanding of the role of family wealth. For example, in 1990, Oliver and Shapiro introduced the concept of "asset poverty," defined as the lack of economic resources to support one's household in the absence of income.<sup>2</sup> This helped transform the standard paradigm that equated poverty solely with an absence of sufficient income. We now turn to what we have learned about wealth and race since the mid-1980s.

### Qualitative Studies of Wealth

The early studies of family wealth in the United States were quantitative and largely descriptive, documenting levels of wealth inequality. As we began to grasp the enormity of wealth inequality, something we had all "known" but could not quantify before these first studies, some scholars began to gather qualitative data, through in-depth interviews with families. Attention now turned to how families accumulate wealth, the meaning wealth has, and how families strategically employ wealth as emergency savings or to leverage mobility. Questions of class, race, life course, and gender differences spurred much

of this work. Qualitative studies began to reveal the dynamics driving advantage and disadvantage, and driving the racial wealth gap in particular.

Wealth provides a matrix of resources for families to plan residential, homeownership, career, and schooling decisions. The family interviews show that families with adequate resources can act on these decisions, which often are framed in terms of the advantages they provide for their children and family. Families hold similar aspirations about education for their children and similar desires to live in safe, healthy, and fostering neighborhoods, but wealth makes a substantial difference in families' ability to achieve these aspirations. The interviews clearly show how wealth provides different sets of resources to meet similar sets of aspirations. Those without adequate resources attempt to compensate and navigate opportunities through kin, community, credit cards, and creative means.

Interviews with families also highlight the way they use wealth to plan for economic and social mobility. Some young families are fortunate to have "transformative assets" (Shapiro 2004). These assets are transferred across generations through inheritances and family financial assistance and provide resources for social and economic mobility. For example, a young couple may receive money from their parents for a downpayment on a home that they otherwise could not afford. As a result, the couple may have access to better-resourced communities and richer educational environments for their children; transformative assets enable families to access resources or to achieve a status that they would otherwise be unable to achieve based on their income alone. In other words, this wealth assistance has the capacity to lift a family beyond its own achievements (Shapiro 2004). Families of color have little opportunity to receive these sort of transformative assets.

### Quantitative Studies of Wealth and the Wealth Gap

#### *Measuring Wealth and the Wealth Gap*

Most quantitative analyses of the racial wealth gap measure wealth as total net worth, which includes the sum of all financial assets as well as equity in business and one's own home and deducts debt from this amount. Another approach deducts the value of home equity from total net worth. The argument for not including home equity relates to the different nature of the full extent of housing wealth that needs to be replaced when tapped into (Shapiro, Meschede, and Sullivan 2010). In constructing asset poverty, for example, some continue to include home equity in their calculations and some exclude it. The issue is about the liquidity of home equity, having to replace housing, and the debt entailed by tapping home equity.

The racial wealth gap has typically been measured in two ways. A common method is to compare the absolute difference, in dollars, between the median wealth holding of whites and the median wealth holding of blacks. This approach is called the absolute racial wealth gap. A different approach is to show the racial wealth gap in relative terms, with a ratio. For example, as noted above, in 1994 the median African American household owned 10 cents of wealth for each dollar owned by the median white household. Both the absolute and the relative approach may be used to show changes in the racial wealth gap over time.

#### *Data and Analytic Techniques*

Researchers examining the wealth holdings of US families have traditionally relied on three major national surveys that contain validated wealth measures: the Survey of Consumer Finances SCF conducted by the Federal Reserve Board, the Survey of Income and Program Participation SIPP conducted by the US Census Bureau, and the Panel Study of Income Dynamics (PSID) conducted by the University of Michigan. The SCF

is a cross-sectional survey that collects data from a representative US sample every three years. In contrast, both SIPP and PSID collect information from households over time: SIPP follows households up to four-years period, and PSID has followed the sample families, their children, and their grandchildren since 1968.

Much of the existing analysis is cross sectional.<sup>3</sup> That is, researchers examine family wealth at a single point in time. Cross-sectional data may be used to compute a dollar figure and a ratio illustrating the black–white wealth gap. The numbers vary somewhat, depending on the data set and measures used, but there is consistent evidence of a large black–white wealth gap. By using different samples of cross-sectional data, we can compare changes in the racial wealth gap over time.

Cross-sectional data may also be used in multivariate analysis attempting to explain the huge black–white difference. We can attempt to discern the relative importance of historical, demographic, ascriptive (inherited), institutional, policy, and achievement factors. In existing multivariate studies, although the significance levels on individual variables like income are quite compelling, the amount of the racial wealth difference explained is small. This pattern implies either that the social science models remain theoretically thin, that the survey data do not capture deeply embedded historical, institutional, or policy factors, or that the large unexplained variance is a residual attributed to race. We suspect that the second factor is particularly important, that is, the fact that the data do not adequately capture deeply historical, policy, and institutional dynamics.

#### Evidence of a Rising Racial Wealth Gap

A plethora of studies have documented the rising racial wealth gap. In 2010, the Institute on Assets and Social Policy released a research brief that tracked the wealth holdings of white and African American working-aged families between 1984 and 2007 (Shapiro, Meschede, and Sullivan 2010). During this 23-year time period, the absolute racial wealth gap increased fourfold, from \$20,000 to \$95,000. Moreover, high-income white households experienced significant gains in wealth over this time period, while high-income African American households gained less than middle-income white households. The latest SCF data also show a widening of the racial wealth gap in absolute terms: In 1998, the average net worth of white households was \$100,700 higher than that of African Americans. By 2007, this gap had increased to \$142,600 (Shapiro 2009).

The impact of the Great Recession on the racial wealth gap is most closely documented by the Pew Research Center study released in July 2011 (Kochhar, Fry, and Taylor 2011). Over the four years of the Great Recession (2005–2009), median net worth decreased by 16 percent for white households. African American households lost much more: 53 percent of their median net worth was gone after the Recession, and the white–black wealth ratio had increased from 12 in 1984 to 19 in 2009. Hispanic households lost even more, experiencing a 66 percent decline in median net worth. The Pew study further reports that between 2005 and 2009 homeownership rates remained at 74 percent for white households but dropped slightly for African Americans, from 47 percent to 46 percent, and dropped from 51 percent to 47 percent for Hispanics.<sup>4</sup>

#### State of the Art: Empirics and Narrative

Perhaps remarkably, the metrics of the racial wealth gap have not been challenged seriously. That is, we cannot find in the literature, and we have not experienced in public speaking and writing, any contestation regarding the choice of metrics. Certainly, the numbers vary depending upon the survey, the measure of wealth, and the year in which

the data are drawn. However, the pattern has been clearly established. For net worth (including housing wealth), the ratio hovers around 0.15; for a liquid definition of wealth that excludes housing wealth, the ratio hovers around 0.10.

While the empirical foundation of the racial wealth gap is apparently unassailable, the narrative interpretation is highly and provocatively contested. We often think of the racial wealth gap as a sort of racial Rorschach test where everyone ventures to “know” why the gap exists and then asserts his or her own theories. Indeed, \$106,500 represents a large gap, and many claims about factors that contribute to it will have some level of accuracy. The challenge that remains is to connect the racial wealth gap to an evidence-based narrative that accounts for the largest drivers of the gap. Any of us who ventures into a public discourse regarding the racial wealth gap has, no doubt, been met with responses like, “I know how to close the gap, get married before having children”; “the gap will close when blacks stop buying designer sneakers at the mall and save”; or “the gap will close when blacks work hard”; and so forth. The task before us, and one this chapter begins, is to rigorously and analytically identify the largest drivers of the increasing gap, connect it to a compelling narrative, and begin impacting public understanding and policy development.

### New Evidence of the Escalating Racial Wealth Gap

In this chapter, we adopt a longitudinal approach, examining the trajectory of the racial wealth gap by following the same set of families from 1984 to 2009. The data cover a quarter of a century and the course of a generation of American families moving through educational institutions, communities, work and family life, and policies—in short experiencing American life. This approach conceptually moves the research from an examination of different starting points to a critical look at the impact of American life on the racial wealth gap. To be clear, we believe that this approach also moves the balance of the analysis away from differential starting points of history toward contemporary institutions, policy, and community. This is not an either-or dichotomy; rather it allows us to better connect the historical legacy to contemporary dynamics.

In order to track the same households over time, we use PSID data from 1984, when wealth data were first collected, through 2009, the latest year data were available. Because we are interested in changes to wealth holdings over time, we limit our analyses to households of working age (25–55 years old) in 1984 who were also present in 2009, thereby eliminating any households lost due to attrition over the 25-year survey period.<sup>5</sup> The final study sample includes 1,188 white households and 486 African American households.<sup>6</sup> Because in the latter years of the study period these adults are older, on average, than a sample representative of the entire US population, their median wealth holdings are greater than those reported in studies using cross-sectional data sets. Despite these particularities, the data offer an extremely powerful means to track the experience of families over time, which can help us understand the specific impact of broader socioeconomic trends.

For the families in our sample, we present two measures of total wealth: net worth and net worth minus home equity. Net worth is the sum of the following seven components:

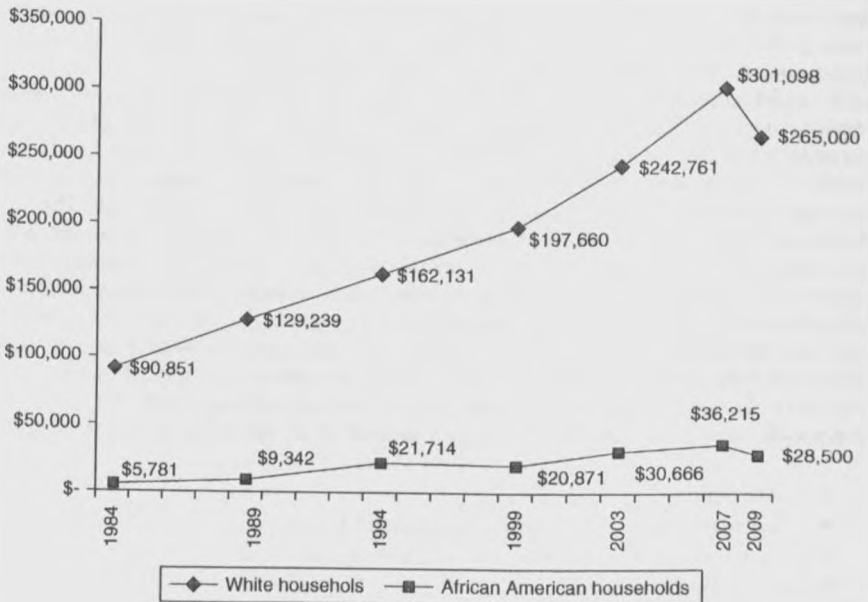
- home equity;
- other real estate, not including the primary home;
- vehicles, such as automobiles, motor homes, and boats;
- farm or business assets;
- stocks, mutual funds, investment trusts, and stocks held in Individual Retirement Accounts (beginning in 1999, IRAs are their own category of wealth);

- checking and savings accounts, and certificates of deposit (CDs), treasury bills and savings bonds; and
- trusts, life insurance, and valuable collections.

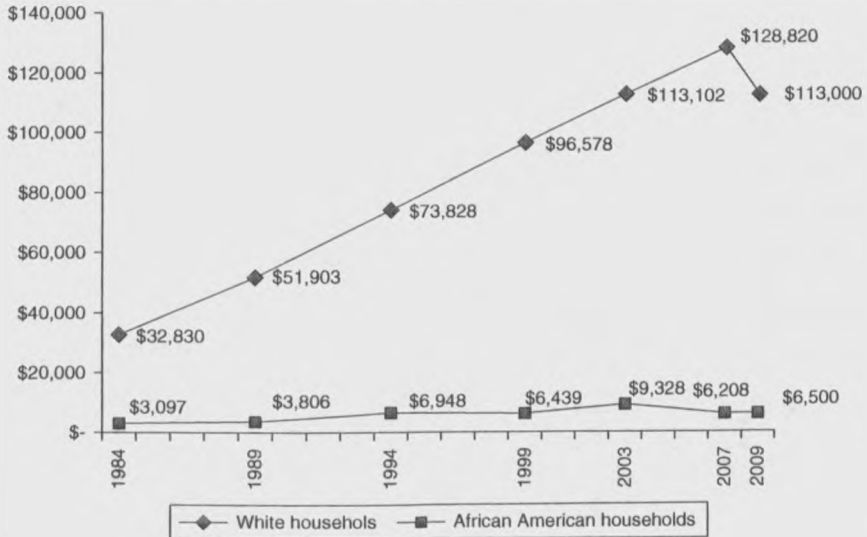
Noncollateralized debt (credit cards, student loans, medical loans, and loans from family members) is subtracted from the sum above to derive the total net worth variable. We use the Consumer Price Index to adjust all dollar amounts to 2009 values.

We begin our presentation with descriptive information depicting trends in median wealth for white and African American households between 1984 and 2009 (appendix 5.1 presents the data used to create figures 5.1–5.8). Figure 5.1 shows very different trends by race: In this time period, median net worth for white households increased from close to \$100,000 in 1984 to more than \$300,000 in 2007 just before the Great Recession. The median net worth of white families then declined to about \$265,000, mostly due to the decline in stock values and housing prices. In the same time period, median net worth of African American households rose from close to \$6,000 in 1984 to \$36,000 in 2007 and fell to \$28,500 in 2009. Thus, the absolute racial wealth gap grew from \$85,000 in 1984 to \$265,000 in 2007 before it narrowed to \$236,500 in 2009.

Figure 5.2 presents median wealth excluding home equity (NW-HE) for the same time period. Again, the data show that the absolute racial wealth gap increased consistently between 1984 and the advent of the Great Recession, growing from \$30,000 in 1984 to \$123,000 in 1997, and then decreasing slightly to \$106,500 in 2009. During the entire 25-year period, net worth excluding home equity grew by 244 percent for the median white households, while it grew only 110 percent for the average African American household.



**Figure 5.1** Median net worth of 1984 working-age households, by race, 1984–2009 (in 2009 dollars).



**Figure 5.2** Median net worth excluding home equity of 1984 working-age households, by race, 1984–2009.

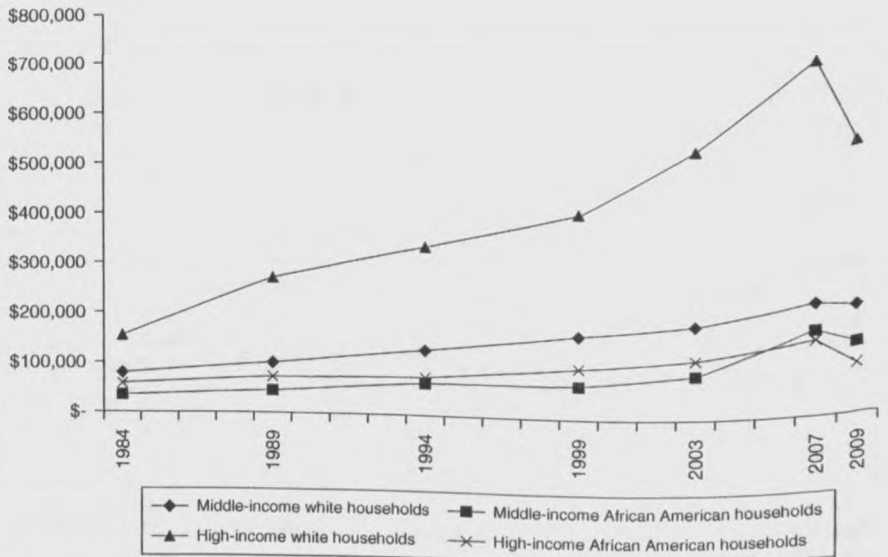
As shown in figures 5.1 and 5.2, differences in home equity contribute substantially to the racial wealth gap. While the absolute racial gap in 2009 amounts to \$235,500 for total net worth, it is \$106,500 for net worth minus home equity.

Housing wealth is a primary component of net worth for everyone, but it makes up a greater portion of assets for African American households than for white households. In 2009, housing wealth comprised 57 percent of total net worth for white and 77 percent of total net worth for African American households. In 2009, African American households had only \$6,500 in nonhousing wealth, at the median, with 50 percent of them having less. The impact of housing wealth on total wealth will be further explored in the next section.

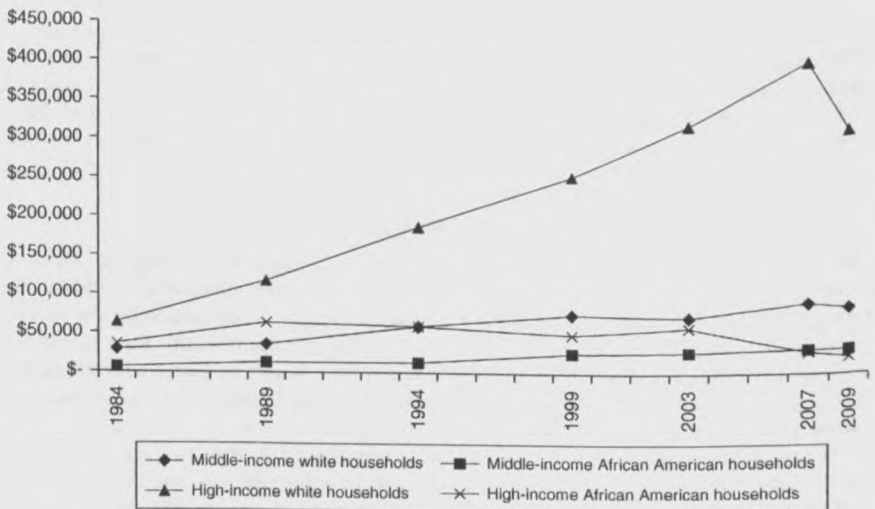
### Income and Wealth

Our next analyses examine the role that income may play in explaining the widening racial wealth gap. As we know, the racial income gap has been about 0.6:1.0, that is, the average African American person earns 60 cents for every dollar earned by the average white individual. We also know that income is highly related to wealth for a number of reasons; for example, children of wealthy families have access to better education, thus higher incomes, and individuals with higher incomes have more money to set aside for investments, home purchase, and retirement savings.

We divided households into three income groups based on their average income over the 25-year study period, a technique that levels income fluctuations over the entire study period and reduces the impact of shocks such as unemployment. We then estimated median wealth holdings for each income group by race. Depicted in figures 5.3 and 5.4 are median net worth and median net worth excluding home equity for high- and middle-income white and African American households.<sup>7</sup>



**Figure 5.3** Median net worth of middle- and high-income White and African American households, 1984–2009.



**Figure 5.4** Median net worth excluding home equity of middle- and high-income White and African American households, 1984–2009.

In both figures, high-income white households show the greatest wealth accumulation over a quarter century, increasing their net worth from \$155,000 to over \$700,000 in 2007 and their net worth excluding home equity from \$63,000 to close to \$400,000. The Great Recession had an impact, decreasing their net worth sharply by 2009, to levels similar to those in 2003. A large portion of these declines is probably due to the dramatic fall of the stock market, and these losses may be temporary. In stark contrast, African American households accumulated very little wealth over the 25-year period, regardless of their income group. In fact, white middle-income households added more to their household wealth than high-income African American households, increasing their net worth from \$77,000 in 1984 to \$216,000 in 2009, and their net worth excluding home equity from \$27,000 to \$83,000 (appendix 5.1). Although high-income African Americans had, in 1984, more net worth excluding home equity than middle-income white households did, by 1999, they had more than \$60,000 less than their middle-income white counterparts. By 2009, the average middle-income white household had more wealth than a high-income African American household.

### Investigating the Major Drivers of the Widening Racial Wealth Gap

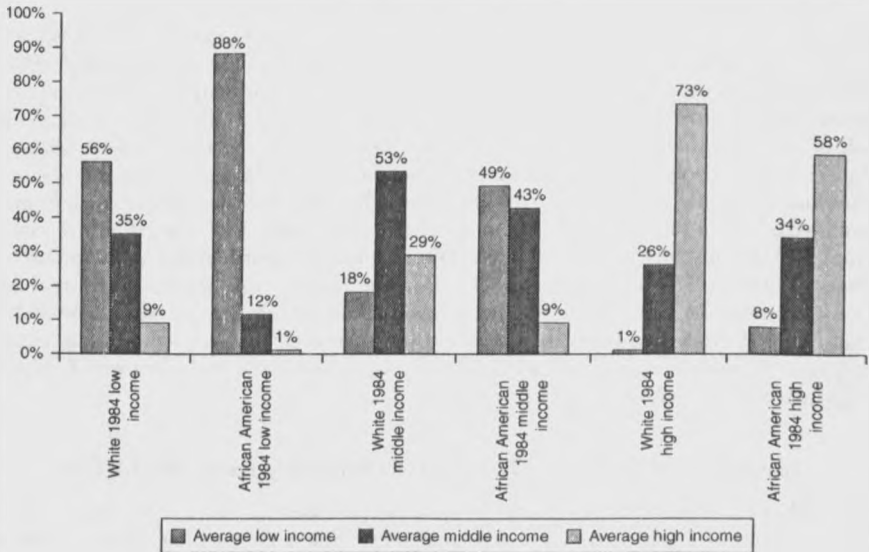
To further explore the factors that contribute to the widening racial wealth gap, we perform a series of multivariate regression analyses.<sup>8</sup> These analyses allow us to examine a number of predictors explaining the rise or decline of wealth for the median household and test the impact of race on wealth (see appendix 5.3 for more details).

We focus on the following predictors: household characteristics (age, marital status, and the number of children), employment characteristics (income, unemployment spells, and type of work), and wealth-related variables (homeownership and receipt of inheritance). Our work indicates that, over the 25-year study period, the most important predictors behind the rising racial wealth gap were as follows: (1) income, (2) homeownership and home equity, and (3) intra family transfers, such as inheritances. In the following, we examine these findings more closely.

#### The Role of Income

In many studies (e.g., Chang 2010; Conley 1999), income is more strongly correlated with wealth than any other observed variable. Clearly, those with higher incomes have the opportunities to set aside greater resources for investment in retirement, education of their children, and their homes. However, as shown in figures 5.3 and 5.4, higher income does not translate into the same wealth accumulation for African Americans as it does for white households. Our regression results tell a similar story: Each dollar increase in income translates into about five dollars of wealth for white households (at the median) and only about 70 cents for African Americans. Increased income (measured as average income over the 25-year period) is critically important to build wealth for both groups, yet the same earnings boost magnifies the racial wealth gap sevenfold. Another way to understand this magnitude is that simply to keep pace in terms of wealth, African Americans need income increases of seven dollars for every dollar increase in income for whites.

One of the biggest takeaways thus far is that increases in income do not build wealth the same for whites and blacks. Part of the reason for this disparity may be greater downward income mobility for initially high-income African Americans, compared to their white counterparts. Figure 5.5 shows income mobility by race, by plotting average income between 1984 and 2009 against income in 1984, for both races. A larger proportion of white households who were in the high-income category in 1984 remained high income



**Figure 5.5** Movement between income categories, 1984–2009, by race and income in 1984.

on average over the 25-year study period (73 percent, compared to 58 percent of African American households). Conversely, 88 percent of African American households who were in the low-income category in 1984 remained low-income compared to 56 percent of low-income white households. This finding is wholly consistent with previous work showing the comparative inability of middle-class African Americans to sustain achieved status and pass it along to their adult children (Oliver and Shapiro 1994).

### The Role of Homeownership

Homeownership is another major driver behind the racial wealth gap. Historically, homeownership rates have been much higher for white than African American households (Joint Center for Housing Studies 2012). The same patterns hold true for the households in our 25-year study. Homeownership rates were highest for both groups in 2003 when 88 percent of white households and 61 percent of African American households owned their home. By 2009, these rates had dropped, but they did not do so evenly. For whites, there was a one percentage-point decline to 87 percent, but for African Americans the homeownership rate fell 4 percentage points to 57 percent (figure 5.6). In addition, 51 percent of white households owned a home throughout the entire study period, and only 4 percent never owned a home. In comparison, 22 percent of African American households owned a home throughout the period, and 26 percent of African American households never owned a home.

During the same time period, the absolute racial gap in home equity also increased (figure 5.7). For most of the study period, home equity increased substantially, for both groups. Between 1984 and 2007, the median value of home equity for white households increased 109 percent from \$74,500 to \$156,000. For African Americans, median home equity rose 106 percent, from \$33,000 to \$68,000. With the recession, however, home equity declined, decreasing 11 percent between 2007 and 2009 for white households and 17 percent for African American households. As a result, the racial home equity gap grew from \$41,000 in

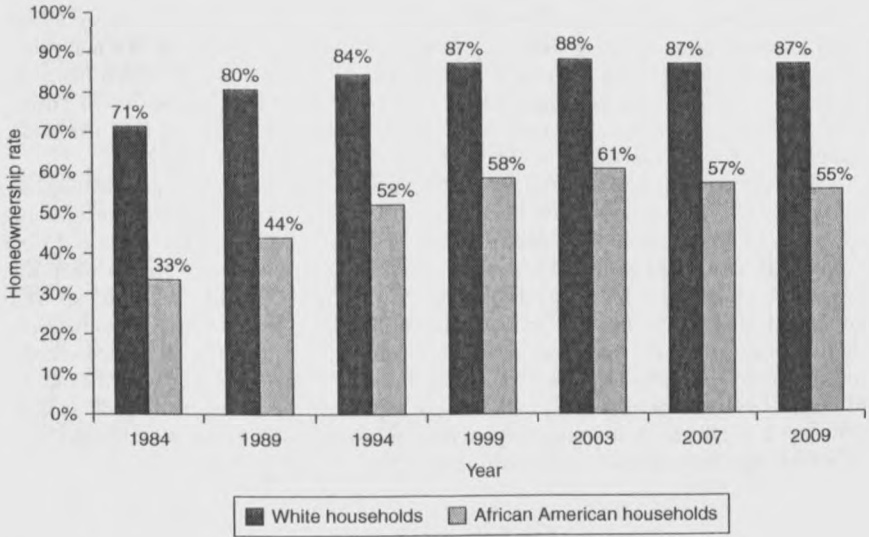


Figure 5.6 Homeownership rates by race, 1984–2009.

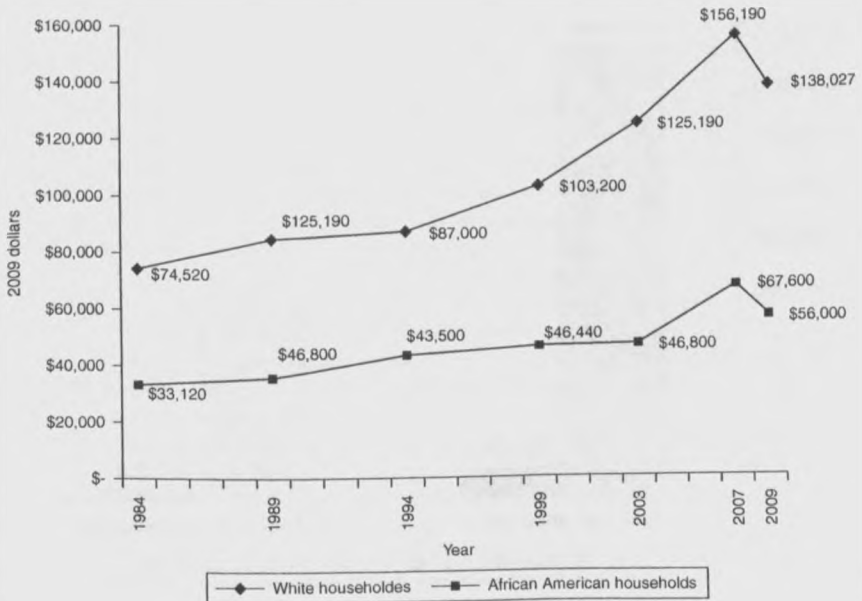


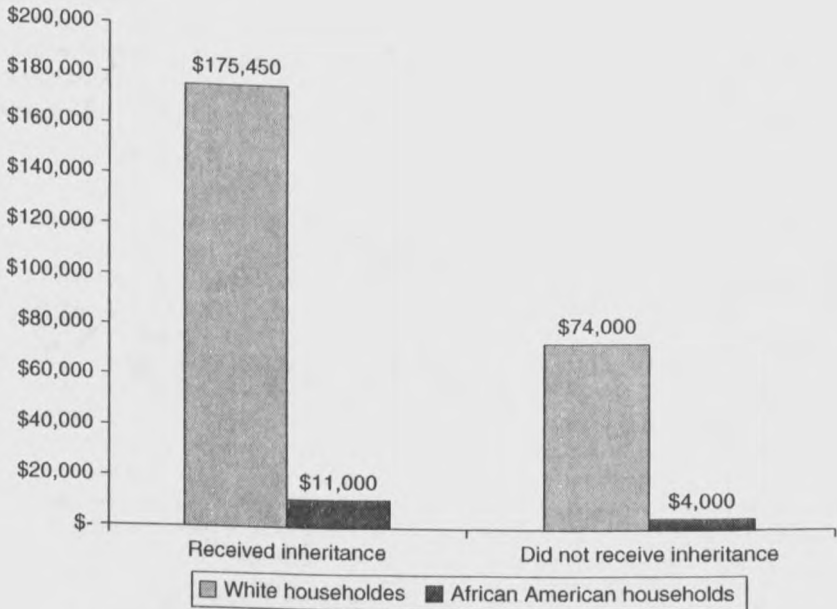
Figure 5.7 Median home equity by race.

1984 to \$82,000 in 2009. Part of the differential increase in home equity is caused by residential segregation intersecting with the growth of home values. We know that many more white households live in more racially homogeneous neighborhoods in which many saw a rapid increase of their home values before the 2008 downturn (Shapiro 2004). There is also ample evidence that many more households of color faced foreclosures of their homes, resulting in a tremendous loss of wealth (Center for Responsible Lending 2012).

We examined changes in wealth for families who moved from renting to owning, and from owning to renting, over the study period, in the quantile regression analyses (see appendix 5.2 for more details). Results of this analysis are different for white and black households. Black households experienced substantial gains in overall wealth when they purchased a home at some point during the 25-year study period; the wealth of white households did not significantly increase due to the switch from renting to homeownership, and this reveals the important role of home purchase and successful homeownership in building economic security for African Americans. For African Americans, the number of years of homeownership is also statistically significant at the median, while it is not for white households. Both groups experienced statistically significant wealth losses when they sold their home at some point during the 25-year study period.

### The Role of Inheritance

Intergenerational transmission of wealth contributes greatly to growing wealth for those who are fortunate to be at the receiving end. Inheritances are a significant driver in the growth of the racial wealth gap. Among white households, who tend to have more wealth



**Figure 5.8** Median net worth (in 2009) (excluding home equity) for households receiving any inheritance or monetary support (1984–2009) by race.

to share with their relatives, close to two in five reported receiving monetary supports or an inheritance during the 25-year study period. Slightly less than one in ten African American households reported any form of inheritance or monetary support. Such monetary supports or inheritances increase the wealth holdings of the beneficiaries. It is not surprising then to find that white households who have received any inheritance have far greater wealth than African American households who received an inheritance and all households who did not receive any inheritance or monetary support (figure 5.8).

The multiple regressions reveal additional complexities. Intergenerational transfers (gifts that are \$10,000 and above) in form of inheritances or monetary supports are highly significant for whites; every dollar of inheritance is associated with a 90 cent increase in wealth. For African Americans, these transfers are statistically insignificant contributors to wealth. However, ongoing smaller gifts (below \$10,000) are important contributors to wealth growth at the median for both groups.

Income, homeownership, and large monetary gifts are large drivers of the widening racial wealth gap. We also tested the impacts of often discussed causes of the differential wealth growth for whites and African Americans, including family composition and number of children and found that these have little, if any, effect at all. In fact, getting married over the 25-year study period improves median wealth for white households (by about \$75,000 over 25 years), while it has no significant effect for African Americans.

### **Moving from Analysis to Narrative and Policy Development**

The march toward democracy in United States history has incorporated civil rights and legal equality for people of color; however, the great challenge of achieving economic equity has been far more difficult. Because of a long history of slavery and Jim Crow laws—and currently, as our data demonstrate, different rewards for similar achievements—the racial wealth gap has been structured through policy, practice, and institutional arrangements. It has always been with us, yet in an era of legal equality and supposed equal economic opportunity, the gap has grown significantly. The threefold increase in the gap has been overall further exacerbated by the Great Recession, which highlights both the need for households to have assets and the vulnerability of people of color. The widening of the racial wealth gap is ironic perhaps given the belated recognition of family financial assets as a prime means for family well-being, economic security, poverty alleviation, and social mobility. The assets perspective and movement are new and are still developing a robust policy agenda. The irony is that the gap has widened in the context of important asset policy advances such as IDAs, FSS, more progressive asset exemptions, and greater public awareness of current reverse Robin Hood tax code and policy.

Closing the racial wealth gap is critical for the economic, political, and moral health of the nation. The benefits would be manifold, especially if the gap can be closed, in the context of increasing family wealth and security for all. However, there should be no illusion about the challenges involved in closing the racial wealth gap. We are convinced that it is indeed possible to make significant strides in closing the gap and that our analysis might serve as a guide for sustained policy development, organizational practices, and institutional reform needed to address the harm of an increasing gap and begin the long-term project of closing it.

This work helps us identify the levers required to close the racial wealth gap and assure growing prosperity for all. Following the same households for 25 years and identifying the largest drivers of the increasing wealth gap highlight the importance and complexities of labor markets, institutional arenas, policy, and inheritance. Increasing incomes contribute to wealth accumulation, yet the dynamics operate so differently that the returns to wealth are far greater for whites than African Americans.

As we seek to identify the critical next steps in narrative and policy development, our work must be informed by empirical analysis. However, specific policy choices should also be informed by many voices and considerations. Three primary empirical findings from our work carry large implications for narrative and policy development. First, income may be the most complicated driver to fashion policy around. Clearly, rising incomes is a powerful generator of family wealth. However, the finding that each dollar increase in income translates into about five dollars of wealth for white households (at the median), but only about 70 cents for African Americans means that we must dig much deeper than earnings and the context of African American labor force participation.

Second, homeownership and the home equity that results clearly is a major generator of wealth for both groups. However, perhaps because the starting point for black wealth is so low and home equity is a larger part of their portfolio, it is significant for blacks and not for whites. While not a vindication of all policies attempting to spread homeownership, it seems evident that making homeownership affordable needs to remain at the center of policy development. Just as clearly, though, the housing and foreclosure crisis contains many lessons and cautions, and we need to be smarter in fashioning future policies promoting homeownership.

Third, in many ways the most uncomplicated finding concerns inheritance and family support. Among whites fortunate enough to receive family wealth, the reward is nearly one-to-one; a dollar inherited is a dollar of additional wealth. For African American wealth generation, the prevalence of intergenerational transfer is small, and family support (smaller, annual giving) plays a critical role. Family wealth is critical to enable first-time homeownership and this sort of intergenerational transfer is more common among whites than blacks. There are clear policy implications to promote transformative asset building opportunities for all through mechanisms like matched savings, pension variations, or other strategies. The significance of inheritance and intergenerational transfers for white wealth accumulation and stability is strong enough to warrant a careful look at how policy structures can provide similar opportunities for wealth accumulation for households who do not receive much intergenerational support.

There are a few small policies that can significantly impact the distribution of wealth. However, our current federal tax code includes a number of policies that subsidize individual wealth creation and maintenance. Recent estimates put the “asset-building budget” of the US government at roughly \$400 billion a year, with the largest tax expenditures spent subsidizing homeownership (through the mortgage interest deduction) and retirement contributions. These public transfers largely benefit households with higher incomes and greater assets. For example, the wealthiest 5 percent receives 53 percent of the \$500 billion asset-building package—\$265 billion—while the bottom 60 percent receives only 4 percent (CFED 2010). This is a major way the government redistributes wealth every year to the top of the wealth pyramid. Viewed from a longer time horizon, the federal government spends \$5 trillion over ten years to subsidize asset building—and the wealthiest 5 percent receive \$2.6 trillion over a decade.

A compelling case can be fashioned for policies that direct resources toward low- and moderate-income households and households of color in particular. It would be more equitable if African Americans, who constitute about 13 percent of the population but receive only 3.5 percent of the asset-building tax expenditures (IASP calculation), received a larger share. If the African American community received a proportional share of these tax expenditure resources, they would be able to access \$47.5 billion each year, and almost half a trillion dollars over a decade.

The case for policies that lead to this level of allocation must be evidence driven, highlighting both the main drivers of the increase in the racial wealth gap and holding

ideological and cultural explanations accountable to the data. In conjunction with initiatives and advocacy, and vetted through constituencies, we can weave a common-sense strategic narrative grounded in evidence that explains the racial wealth gap. Policy development then can coalesce and frame a sustained movement for racial justice.

### Notes

1. This line of thought and research was developed further by scholars and activists such as Edward Wolff, Mariko Chang, Meizhu Lui, Sandy Darity, Darrick Hamilton, Dalton Conley, Barbara Robles, Betsy Leondar-Wright, Rose Brewer, Rebecca Adamson, Jessica Nembhard, Chiteji Ngina, and others who advance the research and bring a critical wealth perspective to racial and ethnic inequality, wealth inequality, gender inequality, senior economic security, and more.
2. Oliver, Melvin L., and Thomas M. Shapiro. 1990. *Wealth of a Nation: At Least One Third of Households Are Asset-Poor*.
3. In fact, even though the SIPP is a panel in which families are interviewed at several points for up to four years, most SIPP users examine the family wealth data in a cross-sectional manner.
4. The same study highlights the increase in wealth disparities within racial groups: In 2009, 51 percent of total wealth owned by white households was owned by the wealthiest 10 percent of households (up from 49 percent in 2005). In the same year, 67 percent of the total wealth owned by black households was owned by the wealthiest 10 percent (up from 59 percent in 2005).
5. Wealth data were available for 1984, 1989, 1994, 1999, 2001, 2003, 2005, 2007, and 2009.
6. Families are not required to provide data for all waves between 1984 and 2009.
7. When income is averaged across the twenty-five-year study period, the middle-income category includes incomes between \$53,461 and \$91,150 (2009 dollars); this range is higher than the middle-income range for 2009 (\$35,000–75,000) due to older age of this cohort that was of working age in 1984.
8. Due to the uneven distribution of wealth, we ran a series of quantile regressions at the median of the wealth distribution separately for white and African American households.

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APPENDIX 5.1  
DETAILED DATA TABLES FOR  
FIGURES 5.1–5.8

**Table A5.1** Median net worth (1984–2009) (figure 5.1)

	1984 (\$)	1989 (\$)	1994 (\$)	1999 (\$)	2003 (\$)	2007 (\$)	2009 (\$)
White households	90,851	129,239	162,131	197,660	242,761	301,098	265,000
African American households	5,781	9,342	21,714	20,871	30,666	36,215	28,500

**Table A5.2** Median net worth (1984–2009), excluding home equity (figure 5.2)

	1984 (\$)	1989 (\$)	1994 (\$)	1999 (\$)	2003 (\$)	2007 (\$)	2009 (\$)
White households	32,830	51,903	73,828	96,578	113,102	128,820	113,000
African American households	3,097	3,806	6,948	6,439	9,328	6,208	6,500

**Table A5.3** Median net worth (1984–2009), by income level (figure 5.3)

	1984 (\$)	1989 (\$)	1994 (\$)	1999 (\$)	2003 (\$)	2007 (\$)	2009 (\$)
Middle-income White households	77,017	98,616	128,836	169,976	188,309	224,530	215,500
Middle-income African American households	33,037	41,263	65,142	67,991	86,984	170,208	140,000
High-income White households	154,447	269,550	340,186	414,639	542,190	712,908	544,000
High-income African American households	53,685	69,204	71,222	100,441	117,766	151,894	97,500

**Table A5.4** Median net worth (1984–2009), excluding home equity, by income level (figure 5.4)

	1984 (\$)	1989 (\$)	1994 (\$)	1999 (\$)	2003 (\$)	2007 (\$)	2009 (\$)
Middle-income White households	26,842	36,678	58,628	75,330	72,292	88,467	82,500
Middle-income African American households	7,020	13,495	14,476	25,239	26,818	31,389	30,000
High-income White households	62,770	117,647	186,017	253,677	319,484	398,360	309,000
High-income African American households	35,102	62,284	57,904	48,933	58,300	27,730	21,000

**Table A5.5** Income mobility (1984–2009), by race (figure 5.5)

	<i>Low-income average (percent)</i>	<i>Middle-income average (percent)</i>	<i>High-income average (percent)</i>
1984 Low-income White families	55	36	8
1984 Low-income African American families	88	11	30
1984 Middle-income White families	18	52	30
1984 Middle-income African American families	49	42	9
1984 High-income White families	1	26	73
1984 High-income African American families	8	35	57

**Table A5.6** Percent homeownership 1984–2009, by race (figure 5.6)

<i>Percent of households with home equity</i>	<i>1984 (percent)</i>	<i>1989 (percent)</i>	<i>1994 (percent)</i>	<i>1999 (percent)</i>	<i>2003 (percent)</i>	<i>2007 (percent)</i>	<i>2009 (percent)</i>
White families	71	80	84	87	88	87	87
African American families	33	44	52	58	61	57	55

**Table A5.7** Median home equity 1984–2009, by race (figure 5.7)

	1984 (\$)	1989 (\$)	1994 (\$)	1999 (\$)	2003 (\$)	2007 (\$)	2009 (\$)
White families	74,520	84,770	87,000	103,200	125,190	156,000	138,027
African American families	33,120	35,465	43,500	46,440	46,800	67,600	56,000

**Table A5.8** 2009 median net worth (excluding home equity) of families receiving any inheritance or monetary support, by race (figure 5.7)

	Received inheritance (\$)	Did not receive inheritance (\$)
White families	175,450	74,000
African American families	11,000	4,000

APPENDIX 5.2  
REGRESSION RESULTS: QUANTILE  
REGRESSION OF CHANGE IN  
NET WORTH 1984-2009, BY RACE

**Table A5.9** Quantile regression of change in net worth 1984–2009, by race

	White families				African American families			
	Coeff.	Standard error	T-Stat	p-Value	Coeff.	Standard error	T-Stat	p-Value
Years of homeownership	1,681.43	1,041.00	1.62	0.107	1,447.49	214.51	6.75	0.000
Rent to own	-1,062.65	17,035.30	-0.06	0.950	2,7340.64	4,152.32	6.58	0.000
Own to rent	-97,513.26	30,672.11	-3.18	0.002	-39,158.08	8,090.91	-4.84	0.000
Large transfers	0.91	0.05	16.72	0.000	0.20	0.11	1.83	0.069
Support	0.35	0.09	4.05	0.000	0.51	0.15	3.31	0.001
Average income	5.19	0.09	55.17	0.000	0.69	0.08	8.69	0.000
College in 1984	16,233.26	14,508.47	1.12	0.263	-2,838.01	7,388.50	-0.38	0.701
Unemployed	-181.97	219.44	-0.83	0.407	15.41	36.13	0.43	0.670
Age of head	146.40	972.64	0.15	0.880	-7.23	264.42	-0.03	0.978
Children in 1984	-4,916.20	5,758.52	-0.85	0.393	-135.33	1,290.71	-0.10	0.917
Single to married	75,635.21	18,396.43	4.11	0.000	4,368.66	4,324.02	1.01	0.313
Married to single	16,289.04	17,472.11	0.93	0.351	-2,497.12	4,453.51	-0.56	0.575
Retired by 2009	4,015.38	15,912.34	0.25	0.801	502.31	4,554.33	0.11	0.912
Constant	-253,399.50	43,107.17	-5.88	0.000	-13,657.01	11,492.56	-1.19	0.235
Pseudo R-square				0.1345				0.1437
Number of observations				1188				496

Source: Panel Study of Income Dynamics.

## APPENDIX 5.3

### REGRESSION VARIABLES

**Table A5.10** Regression variables

<i>Dependent variable</i>	<i>Description</i>
Change of net worth, 1984–2009	Difference 1984 and 2009 net worth in 2009 dollars
<i>Independent variable</i>	
Years of homeownership	Number of years of homeownership 1984–2009
Rent to own	Dummy variable if household rented a home in 1984 and owned a home in 2009
Own to rent	Dummy variable if household owned a home in 1984 and rented a home in 2009
Transfers (1984–2009)	Total amount of large gifts and inheritances transferred to household over \$10,000 between 1984 and 2009
Support (1988–2009)	Total amount of cash transferred, of any amount to household between 1988 and 2009
Average income (1984–2009)	Average household income between 1984 and 2009, in 2009 dollars
College in 1984	Dummy variable if head of household had a college degree in 1984
Unemployed (1984–2009)	Number of weeks unemployed between 1984 and 2009
Age of head in 1984	Age of head of household between 25 and 55 years old in 1984
Children in 1984	Number of children in family unit under the age of 18 in 1984
Single to married	Dummy variable if head of household was single, divorced or separated in 1984 and married in 2009
Married to single	Dummy variable if head of household was married in 1984 and single, divorced or separated in 2009
Retired by 2009	Dummy variable if head of household was retired any time before 2009