Closing the Racial Wealth Gap for the Next Generation

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Introduction

A merica’s celebrated promise is that anyone can achieve a good life and provide for their children if they work hard and play by the rules. But the story of ordinary middle and working class families determined to provide this life for their children is one of increasing economic instability and significant loss of security. Buying a home and sending both parents into the workforce was traditionally the route to stability and security, but increasingly, families have been forced to eat into the equity of their homes and savings, driving up debt to offset the loss of a job, a medical emergency, or a family break up.

The nation’s continuing economic recovery from the Great Recession shows why wealth—what you own minus what you owe—is so important to the stability of households. Wealth is critical to basic economic security and also creates economic opportunities. It is a nest egg to draw on during hard times. It acts as a fence between temporary setback and economic catastrophe. It enables families to preserve progress they have been building for generations. Wealth allows people to retire with dignity and security, and perhaps most importantly, wealth allows children the stability to dream big, work hard, and become all they truly can be.

Without even modest assets, such as land, savings and retirement accounts, or homes and small businesses, economic stability is built on a house of cards that can quickly crumble when income is cut or disrupted. Building wealth over a lifetime and then passing it to later generations is the most effective means to secure personal and family well-being and to increase community economic growth.

The Racial Wealth Gap

In the years prior to the Great Recession, our lawmakers cut the brake lines of the economy by weakening regulations intended to protect working Americans. This led to record-breaking corporate profits, most of which went to CEOs while the incomes of workers who generated these staggering gains declined or stagnated. Business tycoons and politicians started to freeze out organized labor, the most effective force in fighting for middle and working class wages. Employers shifted the risks and costs associated with retirement to individual workers, and fewer Americans started to receive employer covered pensions. All of these factors caused increasing wealth inequality and by the end of the recession, the richest 1 percent of Americans held 36 percent of the nation’s private wealth, more than the combined wealth of 90 percent of Americans.

These devastating effects were felt by all working American families, regardless of race. The wealth of the typical American family fell by a third from 2005 to 2010. White families saw about a quarter of...
their wealth taken, while American families of color had 60 percent of their wealth stripped away, causing the racial wealth gap to double during the Great Recession. Recent Census data show that in 2010, white Americans had 22 times more wealth than blacks. The median household net worth was $110,729 for whites versus $4,995 for blacks, and $7,424 for Latinos (a 15 to 1 ratio). The median white family had 1.7 times more than the median Asian American family.1

The factors that caused the recession took an especially terrible toll on families with children. Families with children under the age of 18 had 72 percent of their wealth taken, even though they had equity in their homes. Roughly 28 percent of white families where the mother did not have a high school diploma had no wealth or were living in debt in 2011, compared to 19 percent of Latino families. And for over half of black families, living in debt became the new norm.

How Did We Get Here?

The crisis in the housing market and the Great Recession exacerbated racial wealth inequities for three major reasons. First, the wealth of communities of color was more concentrated in homes than the wealth of their white counterparts. Even though homes are typically the largest asset of most households, home equity made up 59 percent of the wealth of families of color compared to 44 percent among white families. Second, fraudulent lenders consistently targeted families of color and lied to them about their creditworthiness – black, Latino and Asian American families were often offered only subprime mortgages and excluded from standard mortgages even when they qualified. In fact, black families in high-income neighborhoods were more likely to be sold a subprime loan than white families in low-income neighborhoods, showing that race and ethnicity, not income, was a primary factor driving differentials in access to quality loan products. As a result, housing wealth was lost not just among lower-income people of color, but also among those who had secured well-paying jobs and worked hard and saved to get a toehold in the middle class. Finally, untenable levels of joblessness continued to have a disproportionate impact on communities of color. Blacks withstood jobless rates of over 10 percent for more than four years, with spikes above 17% in many cities, and it will take approximately three more years before unemployment among the black population falls below 10 percent. Without additional federal job-creation efforts, blacks could face nearly a decade of extremely high rates of joblessness.2

The Roots of the Racial Wealth Gap

The staggering loss of wealth in communities of color is not a natural occurrence. Our government invented the middle class, but it did so with a series of policies, regulations, and practices that repeatedly gave white Americans exclusive advantages over Americans of color. Throughout U.S. history, federal and state governments provided “wealth starter kits” for some Americans, giving gifts of land, education, government-backed mortgages and farm loans, a social safety net, and business subsidies to white families – sometimes exclusively, usually disproportionately, and ironically

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subsidiary by those who were excluded: families of color. This history is still relevant today because families pass down wealth from generation to generation through inheritance, one of the biggest factors in building wealth for white families.\(^3\) The same politicians who helped to boost wealth among whites also erected barriers to building wealth among communities of color, for example:

- **Native Americans** lost assets during the first centuries of U.S. history through displacement and treaty violations, but also more recently through tribal termination and Bureau of Indian Affairs mismanagement.
- **African Americans** were not just denied property; they were property during slavery. Legal segregation and Jim Crow laws pushed black citizens to the margins of the economy, where many remain stuck today. Wealth-building programs such as Social Security and the post-WWII GI Bill at first excluded African Americans, with multigenerational effects.
- **Latinos** have been negatively affected by U.S. foreign policy and immigration policy. Mexicans and Puerto Ricans lost land to conquest. Temporary guest-worker programs and exploitation of undocumented immigrants have blocked many Latinos from getting a foothold in the U.S. economy.
- **Most Asian Americans** were excluded from entry, and those who were here were largely denied citizenship until after World War II. Japanese Americans lost their assets when they were interned during World War II. While some Asian groups are now prospering, others continue to have a very high poverty rate.

These and other policies of exclusion cannot be discounted as relics of our uneasy past. They form the cornerstones of our ongoing policies, such as the discriminatory mortgage lending still happening today, and ensure that certain groups reap a greater share of all America offers while others are intentionally left out. This must change. Our country knows how to invest in wealth building for its people. In fact, the federal government already spends more than $400 billion annually to promote asset building, primarily for the wealthy. We now need to promote wealth building for everyone. We cannot afford to squander America’s greatest asset: its people.

**Remaking America’s Promise**

Our framework for closing the racial wealth gap imagines a noble vision for America: a society where your ability to take care of your family and pass on opportunities to future generations is not pre-determined by where you live, the color of your skin, or the social status and historical advantages of your ancestors. **All Americans** must be afforded opportunities for economic mobility and security.

Realizing this vision will require a set of policies and economic arrangements on a scale commensurate with all that has been lost and more. It will take sustained leadership, serious investment, and constant supervision of financial markets. U.S. policymakers and business, civic and education leaders must advance the common good by embracing a new set of standards that connects all of our people to economic opportunity.

The following principles represent a framework that policymakers must pursue to lay the foundation for inclusive economic participation:

- **Policies must be designed to change the structures of economic opportunity.** National and state institutions and economic structures have created a racial hierarchy of opportunity. This hierarchy was not created by individual choices or behavior. We must create policies that restructure opportunity, rather than policies that focus on changing individual behaviors.
- **Policies must build assets over the life course.** There is no magic formula that will throw open the doors of opportunity. In each stage of life, there are different asset building needs. While one intervention

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may not be enough to build assets and address economic inequities, multiple policies targeted over the life course can.

- **Policies must build community wealth.** Individuals are embedded in families and communities that structure and influence their opportunities. By building community assets, more money can circulate in local communities and have positive multiplier effects on local economies.

- **Policies need to be both universal AND targeted to communities with the most need.** Policies should be designed to not create or increase disparities. They should be flexible enough to be implemented inclusively in ways that build on the cultural practices and strengths of various communities.

## Conclusion

Persistent poverty, discrimination and residential segregation still stand in the way of our nation’s quest for fairness. The enormous wealth disparities between whites and communities of color can no longer be ignored. Without wealth, communities of color are on an economic fault line where their financial stability can be easily shaken and destroyed by job loss, illness, or larger economic crises that are beyond their control. As the racial demographics of the United States continue to shift and our nation becomes majority people of color, letting such a large segment of our population live in such perilous financial straits is not only irresponsible, but dangerous to the nation’s long term economic prosperity. Far from being a drain on the economy, people of color can play a role that stimulates the economy through asset building programs. Even in the near term, as America works to rise above the economic crisis at hand and maintain ground in the increasingly competitive global marketplace, we need the talents and resources of communities of color as workers, consumers, and entrepreneurs to help fuel economic growth and recovery.

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**About the Insight Center**

The Insight Center for Community Economic Development is a national research, consulting, and legal organization dedicated to building economic health and opportunity in vulnerable communities. The Insight Center recognizes that successful communities define themselves by their strengths, capabilities and assets.

For more information on the Insight Center, visit our website at [www.insightcced.org](http://www.insightcced.org).

**The Closing the Racial Wealth Gap Initiative**

The Closing the Racial Wealth Gap Initiative is a national effort to build awareness and support for efforts to address the racial and ethnic wealth inequities based on structural factors. To achieve this goal, we have brought together over 180 scholars, advocates, practitioners and other experts of color to inform the national economic debate with diverse perspectives and to provide policy solutions to create a more inclusive and equitable future for all Americans.

For more information, visit [www.racialwealthgap.org](http://www.racialwealthgap.org) and [www.expertsofcolor.org](http://www.expertsofcolor.org).

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