Rising wealth inequality is driven by public policy decisions and requires ‘racially aware policies’ to reverse.

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by Sean McElwee (/profiles/m/sean-mcelwee.html)
Earlier this month, the United States marked the 50th anniversary of the Selma voting rights marches. While much has changed since, racial wealth gaps have persisted (http://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession/) over the past 30 years and even grown since the Great Recession. Today the richest 10 percent of white families own 65.1 percent of the nation’s wealth.

In a new report (http://www.demos.org/sites/default/files/publications/RacialWealthGap_1.pdf), Brandeis University’s Institute for Assets and Social Policy (IASP) and Demos, a progressive think tank where I work as a researcher, investigate what it would take to close this gap. The report concludes that racial disparities in wealth are driven by public policy decisions and calls for “racially aware policies” that could help reduce America’s rising wealth inequality. This includes eliminating disparities in homeownership rates, college
graduation and the return on a college degree as well as the wealth return on income.

**Education**

Conservatives and centrist commentators often present college education as a near panacea to reduce the racial wealth gap. But the Demos/IASP report challenges this claim. It found that increasing graduation rates would reduce the wealth disparity between black and white people by only 1 percent and between Latinos and whites by 3 percent. There are many possible reasons for this. For one, students of color take out more in student loans (http://www.demos.org/data-byte/student-loan-debt-race-ethnicity) than white students. The
debt burden detracts from wealth-building opportunities over a graduate’s lifetime. In addition, people of color are less likely (https://www.insidehighered.com/news/2012/04/09/new-research-how-elite-colleges-make-admissions-decisions) to get into the most selective schools and face discrimination (http://www.cepr.net/documents/black-coll-grads-2014-05.pdf) in labor markets (https://www.insidehighered.com/news/2015/03/06/elite-college-degrees-give-black-graduates-little-advantage-job-market) after graduation. As a result, black and Latino students do not reap the same gains from a college education as their white counterparts.

In fact, race is a far greater determiner of wealth than education. As Demos blogger Matt Bruenig pointed out last year (http://www.demos.org/blog/10/24/14/why-white-high-school-drop-outs-have-more-wealth-black-college-graduates), black college graduates have less wealth than white high school dropouts. Using a new model called the racial wealth audit, Demos/IASP researchers found that
the racial wealth gap between white and black families would be reduced 10 percent if the returns on college education could be equalized. But that’s not nearly enough to close the divide.

REDUCTION OF THE WEALTH GAP ABOUT EQUALIZING COLLEGE GRADUATION RATES


Income

Satire doesn’t need a political litmus test (/opinions/2015/4/satire-doesnt-need-a-political-litmus-test.html) by Jordan Fraade (/profiles/i/jordan-fraade.htm)
Bruenig's previous research found (http://www.demos.org/data-byte/whites-have-more-wealth-blacks-and-hispanics-similar-incomes) that blacks and Latinos in the same income brackets have less wealth than whites. The Demos/IASP report confirms these findings: Black and Latino households with similar income distribution as whites would still face a substantial wealth gap. Eliminating income gaps would reduce the wealth gap by only 11 percent for black people and 9 percent for Latinos. Among black households, the average family would own $92,545 less wealth than an average white family. The average Latino family would own $94,033 less wealth than the average white family. This is because income distribution only tells part of the story. The remaining gap can be explained, in part, by the differences in opportunities to turn wages and salaries into wealth.

Controlling for the differential returns on every dollar of income shows a far greater effect on wealth disparity. In fact, for every $1 that
Reduction of the wealth gap after equalizing incomes accrues to black families with an increase in income, white families earn $4.06. For every $1 in wealth for additional income to Latinos, white families earn $5.37. The racial wealth audit shows that equalizing the return on income could reduce the wealth gap with white households by 43 percent for black households and by 50 percent for Latino households. But black and Latino families earning the same incomes as white families will still have only half the wealth.

REDUCTION OF THE WEALTH GAP AFTER EQUALIZING INCOMES
It may be surprising to those who think that racial equity depends on equal opportunities in the labor market alone. But it’s important to remember that income is a flow, while wealth is a stock. White families have been building up wealth for centuries, thanks in part to the enslavement of black people and discrimination against blacks and Latinos, who were excluded from those gains.

A 2004 paper from economists Maury Gittleman and Edward Wolff provides some hint as to why income equity cannot solve the racial wealth gap. After controlling for income and with a similar return on capital, the authors found that black families save at the same rate as whites. Previous IASP research corroborates their findings (http://iasp.brandeis.edu/pdfs/Author/shapiro-thomas-m/racialwealthgapbrief.pdf) (PDF). Differences in wealth outcomes are explained by factors such as inheritance, home ownership and unemployment.

**WEALTH TRANSFERS**

Percentage of households receiving wealth transfers and the median value of transfers in dollars

As shown in the chart above, in another study (http://www.bls.gov/ore/pdf/ec110030.pdf) (PDF), Wolff and Gittleman demonstrate that black and Latino families are far less likely to receive wealth transfers and that when they do, they tend to be smaller. Wealth transfers include inheritances and tax reductions (http://www.cbpp.org/cms/?fa=view&id=2655), which disproportionately benefit white people. In fact, wealth transfers are
the most unequal aspect of the wealth disparity. The Gini coefficient, the most common measure of inequality, runs from 0 (in which all wealth transfers are equal) to 1 (in which one household receives all wealth transfers). In 2007 the Gini of wealth transfers (primarily inheritances) was 0.961, compared with a 0.489 posttax and transfer Gini of income in the same year (http://www.cbo.gov/sites/default/files/10-25-HouseholdIncome_0.pdf) (PDF). That is, the distribution of wealth transfers is twice as unequal as the distribution of income. Even when households that did not receive a wealth transfer are excluded from the analysis, the Gini is still at 0.814. That means nearly all the wealth transfers in the U.S. go to a small group of people at the top.

**Millennials**

The Demos/IASP report also shows the deficiency in the way millennials understand (http://america.aljazeera.com/opinions/2015/1/are-millennials-tolerant-racists.html) race in the United States. This is worrying given the fact that the
millennial generation is often said to be postracial. Millennials are more likely to believe that racial disparities should be allowed to correct themselves than their parents are. In many ways, their views align with those of conservative Supreme Court Chief Justice John Roberts, who in 2007 argued, “The way to stop discrimination on the basis of race is to stop discriminating on the basis of race.” However, it ignores the effects of history and how wealth replicates itself. In his pioneering book “The Son Also Rises” (http://www.amazon.com/The-Son-Also-Rises-Princeton/dp/0691162549), historian Gregory Clark notes that:

Groups that seem to persist in low or high status, such as the black and the Jewish populations in the United States, are not exceptions to a general rule of higher intergenerational mobility. They are experiencing the same universal rates of slow
intergenerational mobility as the rest of the population. Their visibility, combined with a mistaken impression of rapid social mobility in the majority population, makes them seem like an exception to a rule. They are instead the exemplary of the rule of low rates of social mobility.

Clark found that the residual effects of family wealth remain for 10 to 15 generations. A family's wealth cache simply won’t go away without dramatic changes.

Even more concerning, the notion that racial inequality can take care of itself is not only embraced by white millennials but also by millennials of color (though to (http://www.politico.com/magazine/story/2015/03/millenials-race-115909.html#VP8pUvzF81Z) a lesser extent). This means that the institutionalized structural barriers to racial equity are not receiving enough attention. Many Americans fail to understand how much more unequally wealth and financial assets are distributed than income.
To parrot Roberts, the best way to reduce the racial wealth gap is to reduce the racial wealth gap — not simply to increase access to education or income. Policies that bolster home ownership — the leading wealth asset for most middle-class families — and those that reduce neighborhood segregation will do far more to close the wealth gap than changes in education. Other progressive ideas
such as a baby bond program (http://www.salon.com/2014/12/07/how_america_can_fix_the_racial_wealth_gap/), which establishes wealth-building opportunities for those who have been excluded from them in the past, could substantially reduce wealth gaps.

Deeply entrenched wealth disparity is the product of history. Eliminating it entails reckoning with history as well as robust public policy reform. Ideological commitments to equality of opportunity without policy action won’t be enough.

Sean McElwee is a research associate at Demos.

The views expressed in this article are the author’s own and do not necessarily reflect Al Jazeera America’s editorial policy.
This article is the strongest evidence I've yet seen for higher estate taxes with fewer loopholes. An egalitarian society is the only one that can survive in the long run. Those who disagree need only look to countries like Norway, where incomes are far more even across society and per capita productivity is higher. Those who would shout such policies down are doing it because they understand that vast wealth represents POWER and they want to keep it. That's not democracy and it doesn't work.

REPLY

Buddy Green 11 days ago

I have this vision of a Cadillac escalade parked in from of a mobile home

REPLY

SinglePayer Now 13 days ago

Revolutionary Economics 101: Maximum Income Tax + Guaranteed Income = Partial Reparations for Institutional Racism

This formal is very workable, and the opportunity to sign up for RevEcon101 is now publicly available in every geographical location on the planet. Wonder why this practical formula is still absent from these kinds of articles? Apply
it to every instance of injustice, and you will see how good it works. Examples: Greece, homelessness, Bangladesh garment workers, etc., etc.

RichardSzulewsk 13 days ago

Wow.

I have rarely seen such blind ideology not backed by facts.

First the statement "Conservatives and centrist commentators often present college education as a near panacea to reduce the racial wealth gap" is an unbelievable falsehood. Progressives believe that. Anyone remember the "free college" program initiated by W? Or Reagan? No? That is because the left is the group that espouses that free education is the answer to income disparity.

Second the statement "Policies that bolster home ownership — the leading wealth asset for most middle-class families — and those that reduce neighborhood segregation will do far more to close the wealth gap than changes in education." is simply flabbergasting. When the Clinton administration initiated that exact program that encouraged home ownership it caused the 2008 stock crash. Real estate USED to be a reliable wealth builder...not anymore. 30 million home
owners are currently underwater.

The way to growth wealth, the ONLY way to grow wealth is to grow opportunities. It is not for the state to equalize outcomes. That is called Marxism. And we all see how that worked out.

The government is the problem not the answer.

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REPLY

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Alexander Weaver 13 days ago

Oh yeah really good article by the way, the impact and legacy of slavery and segregation did not disappear with the Emancipation and Civil Rights movement. It might be a while before things settle down but we can help by addressing the problem and listening to the voice of the people. I think things are generally getting better and this particular problem has a solution if we are determined enough to find it.

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REPLY

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Alexander Weaver 13 days ago

Reparations for slavery and segregation seem like a good place to start increasing social mobility, wouldn't a college grant program for (I apologize for vague and insensitive language) 'victims' of slavery
be a good way to move people in higher education? Similarly housing vouchers or similar programs allowing for families to move to where they believe they’d have better opportunities and provide that house-wealth. Slavery was wrong and harmful, we have to move past simply condemning the past and try to rectify the lasting impact by implementing policies directed at making available all that was previously denied. I think that in that process of making amends we'll probably learn how to effectively deal with the needs of Americas people.

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