The United States is becoming much more racially and ethnically diverse. At the same time, it’s becoming more unequal in terms of wealth and income.
These two trends are combining in an uncomfortable way: the wealth and income divide is happening along racial and ethnic lines.

The typical black household now has just 6% of the wealth of the typical white household; the typical Latino household has just 8%, according to a recent study called The Racial Wealth Gap: Why Policy Matters, by Demos, a public policy organization promoting democracy and equality, and the Institute on Assets and Social Policy.

In absolute terms, the median white household had $111,146 in wealth holdings in 2011, compared to $7,113 for the median black household and $8,348 for the median Latino household. (All figures come from the U.S. Census Bureau Survey of Income and Program Participation.)

This is what is called the racial wealth gap.

![Figure 1. Wealth Accumulation and Size of the Racial Wealth Gap, 2011](http://www.forbes.com/sites/laurashin/2015/03/26/the-racial-wealth-...y-a-typical-white-household-has-16-times-the-wealth-of-a-black-one/)

While the disparity might seem only to be a problem for the economically disadvantaged families of color, it actually worsens political and economic outcomes for the entire country.

“Huge subsets of the population are excluded from accessing the avenues toward wealth,” says Catherine Ruetschlin, senior policy analyst for Demos and a co-author of the report, “and that is a problem for political stability. But it’s also a problem for economic stability. As we’ve seen in reports from big international finance organizations like the International Monetary Fund or...
World Economic Forum (http://www3.weforum.org/docs/WEF_GlobalRisks_Report_2014.pdf), increasing inequality is a source of increasing volatility, and wealth inequality means, when the economy hits a volatile patch, people don’t have the resources to withstand those shocks.” That, in turn, makes the economy more volatile, says Ruetschlin.

While not every family can be expected to become wealthy in the jet-setting, Wolf-of-Wall-Street manner, every family needs some amount of wealth for economic security. The racial wealth gap means families of color may not be able to give young members of their households gifts to invest in their future, similar to what their white friends are likely to receive.

(The study did not include households of other races or ethnic groups, such as Asian, Native American, Caribbean, Mexican, African, Middle Eastern, Southeast Asian, because the populations are too small to produce statistically significant results.)

Federal policies also reinforce the wealth gap, as many of them largely result in increasing the wealth of those who already have it.

Here are the three main factors driving the income gap between white households and black and Hispanic ones.

1. Homeownership

For most U.S. families, a home usually comprises the largest portion of their assets.

“Homeownership is the central vehicle Americans use to store wealth, so homeownership and access to homeownership are at the heart of that widening wealth gap,” says Ruetschlin.

But disparities in homeownership fall along racial and ethnic lines. Seventy-three percent of whites own a home, compared to 47% of Latinos and 45% of blacks.
The median white homeowner’s house is worth $85,800 compared to $50,000 for black homeowners and $48,000 for Latino homeowners.

Much of that disparity comes from the gap in the home values in white neighborhoods versus the neighborhoods where people of color live. The roots of the gulf stem at least as far back as the 1934 National Housing Act, which redlined black neighborhoods, marking them as credit risks. Though redlining was outlawed in the ’60s, the effect persists today in the form of neighborhoods, consisting mostly of people of color, that have high poverty rates, low home values and declining infrastructure.

Discriminatory lending also exists today: Mortgages obtained by households of color tend to have higher interest rates. Even as recently as 2012, Wells Fargo admitted it had steered black and Latino households into subprime mortgages but had offered white borrowers with similar credit profiles prime mortgages.

**Education**
A college education is all but required to flourish in the labor market, establish financial stability and build wealth. But the gap in college attainment by whites versus blacks and Latinos has widened over the last decade. In 2011, 34% of whites completed a four-year college degree, whereas just 20% of blacks and 13% of Hispanics did.

One obstacle is the surge in college costs over recent years, forcing households to take on significant debt to send student to college.

But obtaining a bachelor’s isn’t enough for a black or Hispanic person to escape the racial wealth gap. The return on investment in college is much higher for whites than for blacks and Hispanics: A white family at the median sees a return of $55,869 from completing a four-year degree. A black family sees $4,846 and an Hispanic family $4,191.

Contributing factors to this disparity are the higher debt students of color may need to take on to attend college and discrimination in the workplace. “Even if you graduate from college, as a black college graduate, you’re faced with discrimination. So you might have done everything right, achieved the skills you need to succeed, but you won’t see a higher return. The other issue with education is that black college graduates come out with higher debt levels so they start out behind in terms of asset building,” says Ruetschlin.

Less obvious factors have historical roots in prohibitions against teaching slaves to read and the practice of “separate but equal” educational facilities. They continue to matter because parents’ educational level and family income and wealth are strong predictors of children’s educational success.
Another cause is related to homeownership disparities: residential segregation keeps black and Hispanic families in school districts with low-quality, under-resourced schools, which can then influence students’ preparedness for college.

**Labor Markets**

Labor markets can provide economic security through earned income, employer-provided health coverage, paid leave and workplace retirement plans. But inequality in the labor market is responsible for 20% of the growth in the racial wealth gap in the last 25 years, and unemployment another 9%.

Disparate outcomes in the labor market can come from employment discrimination, geographic barriers to jobs and differing levels of social capital.

The typical white family earns $50,400, while the typical black family earns $32,038, and the typical Latino family, $36,840.

“In the labor market, the wealth return to a dollar of income is first determined by how much of that income you have the opportunity to save,” says Ruetschlin. “If you are facing a wealth gap of 80 cents for every dollar a white family makes, that makes you 20% less able to put that dollar into savings, because you may need all of those dollars to fill your consumption needs.”

Additionally, black and Latino families earn a lower return on their incomes, meaning they are less able to turn each additional dollar of income into wealth. A white family will typically see a return of $19.51 for each dollar earned, while a black family will see only $4.80 in return and Latino families $3.63.
Causes include the fact that blacks and Latinos are less likely to have jobs that include employer-sponsored health care, a retirement plan or paid time off. The net result is that families of color spend more of their savings on dealing with life’s emergencies such as out-of-pocket health care. Or, they have fewer wealth-building vehicles, such as tax-advantaged accounts, available to them.

Other factors stem back to homeownership and education: A child whose parents were steered into a low-income neighborhood with a low-quality school has decreased chances of obtaining a four-year degree, which also then cuts off future job opportunities. Additionally, although it is illegal, discrimination on the basis of race or national origin endures, whether unconsciously or overtly.

**Update 2:55pm Eastern Time, Thursday March 26, 2015:** The article has been updated to reflect that the study focused on white, black and Hispanic households and excluded other races and ethnic groups because their populations are too small to produce statistically significant results.


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