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Why the Racial Wealth Gap Harms Everyone—Even Whites

Racism drives down wages for white workers too.

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People of color are less likely to own homes and inherit money from relatives, two big factors that contribute to overall wealth.

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For every dollar owned by the average white family in the United States, the average family of color has less than one dime. Why do people of color have so little wealth? Because for centuries they were barred by law, by discrimination, and by violence from participating in government wealth-building programs that benefited white Americans.

Our net worth is influenced by the net worth of our parents, grandparents, and earlier generations. Most private wealth in the United States was inherited. And even for people who don't inherit money after their parents' deaths, their families' education and social contacts and financial help from living relatives make a big difference.

First, let's discuss the perception and reality of economic equality by race. Explicit racial discrimination has been illegal since the civil rights laws of the 1960s; so many people now attribute racial differences in financial success entirely to individual behavior. White Americans in particular tend to believe that the playing field is now level. Every year Gallup takes a "minority rights and relations" poll that reveals ethnic differences in perceptions of opportunity. In the 2004 poll, 77 percent of white respondents and 69 percent of Latino respondents said they believe that black Americans have as good a chance as whites do to get any kind of job for which they are qualified. Only 41 percent of blacks felt the same.

But Americans begin the race from different starting lines. Not only do well-off people, primarily whites, have significant head starts, but even many working-class whites have had modest advantages when compared with working-class people of color, most of whom begin far behind whites' starting line.

People of color are more likely to be tossed on the waves of economic turmoil—and sometimes drowned—because they don't have big enough asset security boats to help them stay afloat. Three-quarters of white people own their homes, while a slight majority of people of color are renters. In times of inflation, housing becomes easier to afford for homeowners with fixed mortgage rates, while renters see their housing costs rise. In times of recession or depression, those with savings accounts can better weather unemployment, while those without savings can be sunk into debt and deprivation. And in times of economic growth, those with assets can invest them or borrow against them to take advantage of business opportunities.

And while income can change on a dime, wealth changes over generations. Our lives are shaped by the wealth—or lack of wealth—of our parents, our grandparents, and our ancestors.

For example, white people are much more likely to inherit money from deceased relatives than people of color. In ***The Hidden Cost of Being African American,*** Thomas Shapiro summarizes the research on racial differences in inheritance. One study he cites reports that 1 in 4 white families received an inheritance after a parent's death, averaging $144,652, while only 1 in 20 black families inherited, with an average inheritance of $41,985.

Shapiro also found that modest amounts of money passed down by living relatives were also far more common in white families than in black families. Whites who get such help often don't think of themselves as inheritors but consider such transfers to be just a normal part of family life. Contributions to a down payment on a house and college tuition are the most common forms of family financial aid. Shapiro calls these "transformative assets," because they boost lifelong prosperity and security. About half of white families give this kind of head start to young adults, compared with about 1 in 5 black families.

But some might ask, why not just fight poverty? Isn't the problem low income and assets, regardless of race?

It's true that the racial wealth divide exists in the context of growing overall economic inequality, now at historic proportions not seen since 1929. And it's true that millions of white people are among those who have fallen backward over the last 25 years. More than 1 in 6 American children live in poverty, including 1 in 11 white children.

But race is still relevant when thinking about this. Because this challenging economy presents more barriers for people of color than for white people and because past efforts to raise the floor left out most people of color.

In what ways do people of color face more economic barriers than white people? Both outright discrimination and the costs of segregation block the advancement of people of color.

First, old-fashioned prejudice and discrimination have not gone away. Even when employers, landlords, and realtors aren't prejudiced and even when there is no outright discrimination, people of color still tend to be blocked by where they live and who they know from getting as much money as white people. Even low-income white people tend to have connections and advantages not available to their counterparts of color. White poor people spend a shorter time in poverty and suffer less extreme deprivation than poor people of color.

Melvin Oliver and Thomas Shapiro, in their 1995 book ***Black Wealth/White Wealth,*** found that differences in income, occupation, and education only accounted for about 29 percent of the difference between white and black families' assets in 1988; over 70 percent of the difference was related just to race. They called this "the costs of being black," but it could also be called the benefit of being white.

Legal discrimination was gradually chipped away at from the 1940s to the 1960s, culminating with the civil rights laws. But traces of *de jure* (in law) discrimination lingered on. For example, President Reagan backed off from even the limited federal commitments to affirmative action and investments in communities of color that were made in the 1970s. Both the Clinton and Bush administrations have toughened bankruptcy, welfare, and social security rules under the rhetoric of "personal responsibility" and "the free market," but people of color have been disproportionately harmed.

For example, the welfare reform law of 1996 was implemented more harshly for recipients of color than white recipients. White people leaving welfare are twice as likely as black and Latina people leaving welfare to receive transitional benefits like child care and transportation assistance. Children of undocumented immigrants, even high school valedictorians whose parents have been paying taxes for decades, are barred from getting in-state tuition rates and public scholarships in many states, excluding some of them from higher education.

In truth, everyone would benefit from closing the racial wealth gap. In the long run, white people also lose from policies that disadvantage people of color. The lower floor in the United States compared with western Europe, Canada, and other industrialized countries—below-poverty minimum wage, weak social benefits, lack of guaranteed health care, poor education system—can be attributed to the racial divisions in the United States. The existence of a labor force with substandard wages enforced by racism has enabled employers to pay less to all workers.

Undocumented immigrants are currently the most common group being used this way by unscrupulous employers. Public benefits like welfare and Medicaid are associated with people of color by politicians and media, thus weakening their support among white voters, and then poor whites also suffer when they are cut.