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The race mistake

By Vishnu Sridharan

Robert Reich, former Secretary of Labor and current Professor of Public Policy, has brought long overdue attention to crises facing our economy, in particular through his award-winning documentary **"Inequality for All."** Reich has been notably silent, however, on the relationship of race and wealth, until recently, when he **broke his silence** on his personal blog and website.

Unfortunately, Reich's analysis reinforces harmful tropes about personal responsibility and thus distracts us from the transformative policies that can change the life trajectories of low-income communities of color. Reich defines wealth primarily in terms of an individual's "savings." He writes that "many Americans have almost no savings, so they have barely any wealth," adding that "you have to have enough savings from income to begin to accumulate wealth." While Reich mentions that wealth is "also" transferred from generation to generation in direct transfers, he believes that the best way of addressing the racial wealth gap is to "help lower-income people gain a foothold in building their own wealth."

Reich is not alone in this thinking. Far from it: Reich's race mistake deserves closer examination because it is made again and again by smart, well-meaning people who seem to believe that the key to supporting communities of color is to help them make better decisions with their money.

To be quite clear: The ability for individuals and families to save is a critical one, and helping lower-income people start saving (by, say, **removing bureaucratic barriers** that dictate who **can start saving where and when**, many of which disproportionately affect people of color) is a step in the right direction. At the same time, the equation of savings with wealth is, in any context, unfortunate; in the context of race, it is simply inexcusable. The reason many communities of color have so little wealth is not because they haven't saved enough; it is, as economist **Beadsie Woo has written**, the result of "a long and shameful pattern of discriminatory policies — from redlining by federal housing authorities to disparate access to the benefits of the GI Bill." In other words, the wealth gap is not driven by differences in individual behavior. It is driven by **public policy decisions.**

Over time, these public policy decisions have favored certain communities over others. Families who have been favored then pass on their privilege to their children. **Research** by the New School, Duke Center for Social Equity, and the Insight Center for Community Economic Development (where, in the interest of full disclosure, I am a Senior Consultant) shows that whites are more than twice as likely to receive parental support for higher education, and six times as likely to receive parental support for purchasing a home. Our **research** also shows that individuals who receive financial support from their parents have a much higher income and wealth later on in life.

It is the unearned birthright of inheritance or other family transfers that has the greatest effect on wealth accumulation, not savings, so making it easier for low-income individuals to save simply cannot address the racial wealth gap. The simplest reason for this is that people with the least resources **spend most of their money** on things that keep themselves and their loved ones alive—primarily food and housing. Furthermore, the scope of the racial wealth gap is so large that the impact of individual efforts is marginal. **In 2011** white households had a median net wealth of $111,740, compared to just $7,113 for the black households. As such, if a median black household saved $50 a month, and the white household saved nothing, it would take the black family over 173 years to even the playing field.

While policies that facilitate savings can help keep more money in working families' pockets, to make real progress on the racial wealth gap we need to focus on direct investments in those communities that have been denied economic opportunities throughout our nation's history. For instance, as shown by an **analysis** by the Institute on Assets and Social Policy, if the Federal Government invested $60,000 in an account for children from low-income families, the net worth gap between African Americans and their white counterparts would narrow by more than 80 percent. This is the type of profound, meaningful investment that is necessary to address the 10 to 1 wealth ratio of white to black households.

With an understanding that wealth is inherited from one's parents and preferentially distributed by the government, we can more easily see the type of transformative policies necessary to change the life trajectory of low-income communities of color. While facilitating savings helps boost asset accumulation within one's lifetime, direct federal and state investments in communities of color can provide the next generation with the unique benefits of historically rooted wealth. The first step toward correcting mistaken notions about race is to acknowledge that economic advancement in this country has always been color-coded.

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