Opinion: Narrowing the Racial Wealth Gap

Do policies meant to address big problems aggravate an economic divide?

The incoming Trump administration and lawmakers should anticipate whether new policies will improve or aggravate wealth inequities, Shapiro and Asante-Muhammad write. (Bill Clark/CQ Roll Call file photo)

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By THOMAS SHAPIRO AND DEDRICK ASANTE-MUHAMMAD
We have a proposition for the incoming Trump administration and the new Congress and it’s not a liberal or a conservative idea. It’s just a call for pragmatism when developing new federal policies over the next four years.

For too long, even when coming together to enact laws to accomplish noble goals, Congress and previous presidents have ignored the unintended effects of “one-size-fits-all” legislation on the racial wealth divide in this country. What seems like a great idea — making college more affordable, for example — can actually feed the divide.

Republicans and Democrats alike agree that the racial wealth gap is horribly skewed and growing. The median white household today has accumulated wealth of $110,000 compared to $7,000 and $9,000, respectively, for median black and Latino households. There is talk on both sides of the aisle of developing economic development or tax proposals that might help reverse these trends, but a better place to start is to use newly developed strategies to scrutinize proposed legislation for its unintended effects.

The “Racial Wealth Audit” is one such strategy. Developed initially by Brandeis University’s Institute on Assets and Social Policy, and Demos, the audit compares today’s racial wealth disparities with projected wealth outcomes by race and ethnicity following the implementation of a particular policy. In other words, it helps us anticipate the impact of future policy to better understand if a new policy will improve or aggravate wealth inequities.

Take the example above of making college more affordable. Applying the audit shows that among young adult households, full debt forgiveness for all student loan holders would increase the wealth gap between white and black households by nearly 10 percent, while a targeted policy that provided full debt relief to households making $50,000 or less (roughly the U.S. median income) would decrease the same gap by 7 percent.


Let’s take another example from the education sector. Many legislators are supporting a push to create a universal Children’s Savings Account, or CSA, program, which would provide a savings account to all children as early as birth, primarily to help pay for higher education.

Estimates applying the audit demonstrate that if a universal CSA program had been established for today’s young adults, and if that program had included a progressive public investment reaching up to $7,500 for low-wealth households but reduced amounts down to $1,250 for high-wealth households, the wealth gap between young-adult black and white households would have decreased by 23 percent. The gap between young-adult white and Latino households would have declined by 28 percent.

The idea of differentiating between the wealthy and economically vulnerable in setting policy isn’t new. The United States has long maintained an income tax system that taxes the rich at a different, higher rate than the poor. But we’ve done little over the years to examine whether all federal policies meant to address big problems are doing so without aggravating the racial wealth divide.
We also know that public investments can be transformational in creating a stable, growing and prosperous middle class. Look at what happened after World War II with the GI Bill. Unfortunately, those benefits were distributed unequally to soldiers of color, feeding a wealth gap that has yet to be corrected through our policies.

The approach we’re advocating is known as targeted universalism; that is, universal policies that emphasize benefits based on existing needs and barriers instead of one-size-fits-all. Policymakers must recognize that groups are situated differently and that to promote a large, universal goal, the policy tools and instruments need to take current social structures into account.

This prescription for developing new federal policies is not a radical one. It simply provides a crucial but often missing perspective. Our nation’s policies built the racial wealth gap we struggle with today. Now, we have the opportunity to avoid the mistakes of the past and do better.

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