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Running in Reverse

By Thomas Shapiro | October 22, 2004

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Among the crucial issues facing families today is how the recent recession and jobless recovery has affected family economic security. This topic has been virtually neglected during the current election and absent from the Bush-Kerry debates. My recent research argues that a widening wealth gap between minorities and whites is reversing gains earned in schools and on jobs and making inequality worse. This week's report from the Pew Hispanic Center provides new data on family wealth and offers a sobering assessment of the precarious and fragile status of middle-class families, including whites, but most particularly Hispanics and African-Americans.

In the years prior to the 2001 recession, white, Hispanic, and African-American families were generating wealth through savings, investment, and homeownership. More families were acquiring assets and family portfolios were growing. In this context of wealth accumulation, however, the wealth gap between minority and white families was widening. The recession and recovery brought wealth growth to an abrupt halt for millions of American families. During the recession and jobless recovery, Hispanic and African-American families lost over one-quarter of their wealth while the wealth of white families grew slowly. In 2002, a typical Hispanic family owned 11 cents of wealth for every dollar owned by a typical white family, and African-American families owned only 7 cents.

Net wealth losses illustrate how Hispanic and African-American families,

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and low-to-middle income families in general, have shouldered the burden of tightening economic times in the Bush administration. And the wealth data show that the current combination of recession and recovery has tightened the financial vice on millions of American families. Over one in four Hispanic and African-American families are asset-poor, having no liquid financial assets, compared to 6 percent of whites. Families with small or moderate amounts of wealth drew down their meager stockpile of savings to use as private safety nets. In addition to making tough choices like giving up health insurance or spacing out medical appointments and refilling prescriptions, this is the real story of how families are adapting to the recession, jobless recovery, stagnating wages, outsourcing, and dwindling federal commitment to important safety nets like unemployment benefits and the minimum wage, which is not keeping pace with inflation.

For example, interest-earning assets like savings bonds, IRA and Keogh accounts, 401(k) and thrift accounts, stocks and mutual funds, and business capital declined precipitously in Hispanic families with assets. In African-American families, stock and mutual fund investments plummeted by nearly two-thirds. Surely, this reflects investment losses, but it also represents families tapping accounts to cover insecurities about employment and losses of job-related income. These families are adapting by eating the acorns they were storing for their future economic mobility and security. These setbacks will not be made up easily or in a short time span.

While the income, educational achievement, and job gaps among Hispanics, African-Americans and whites remain steady or show some slight narrowing, the wealth gap increases. I made this argument in my recent book, **The Hidden Cost of Being African American**. The report and current data from the Pew Hispanic Center further corroborate how a growing wealth gap reverses gains in schools, on jobs, and in paychecks. An added compounding change is that the financial portfolios of Hispanics and African-Americans have been shrinking in the current economy.

More than any other economic attribute, wealth represents the sedimentation of historical inequalities in the American experience, in a sense the accumulation of advantages and disadvantages for different

racial, class, and ethnic groups. In this way, it allows us a window to explore how our past influences realities today.

This is not simply a story about counting money, because families think about using wealth first as a private safety net, and then as a vehicle to launch mobility into middle-class status, homeownership, business development, or a more secure retirement. The recent recession and recovery – along with public policies – are a real step backward for the self-reliance and independence of Hispanics, African-Americans, and other low-to-middle income families. And they are a double blow against equality and family well-being in America. I would have loved to hear the candidates have a serious conversation about the economic status of America's families and the role of government in enabling families to build a wealth pillar for their mobility, stability, and well-being. It is not too late.

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