Addressing the Racial Wealth Gap with New Rigor

Wealth is critical for family financial security and the capacity to build a better life. It can provide a lifeline during hard times, and during good times it can activate opportunities for upward mobility and investment in the future. While income helps families afford the living expenses of today, wealth is the key to long-term stability and financial growth. Yet despite legal progress toward expanding financial opportunities for all Americans, the disparities in wealth by race and ethnicity are at historic levels. The racial wealth gap, defined as the difference in median wealth holdings between groups by race or ethnicity, has consistently shown that typical white households hold multiple times the wealth of their African American and Latino peers. Today, the typical white household owns $8 in wealth for every $1 owned by African American and Latino households.1

Inequalities in wealth tend to have compounding effects over time because households with existing assets are able to use their resources to buy homes, invest in the future, and avoid high-cost debts, providing an advantage that grows across lifetimes. Research from the Institute on Assets and Social Policy (IASP) following the same families over decades demonstrates how racial and ethnic disparities in wealth intensify with time, as whites see important gains in assets over the years while households of color draw smaller returns (Shapiro, Meschede et al. 2010, Shapiro, Meschede et al. 2013). Growing evidence shows that historical access to asset-building opportunities is a key aspect of economic security today and puts the racial wealth gap at the heart of a broad range of policies aimed at establishing secure families and communities across the country.

Public policy plays a crucial role in household asset-building by establishing the rules of the game for household finances and facilitating (or hampering) savings. Both past and present policies are important factors that contribute to racial and ethnic wealth disparities. Discrimination, inequities in financial markets, and disparate access to credit by race and ethnicity all reinforce the growing racial wealth gap (Conley 2001, Shapiro 2004). These disparities create barriers to financial security for people of color and compound the problems of racial and ethnic inequities in labor, education, entrepreneurship, and other markets. In practice, the legacy of past discrimination in housing and other assets is codified into current policy when programs that ignore these persistently unequal outcomes are enacted. But policy offers the chance to either intensify or combat current trends, which are leaving households of color increasingly more vulnerable financially (Shapiro, Meschede et al. 2013). The Racial Wealth Audit™ provides the information necessary to identify and promote public policy decisions that overcome discrimination and the barriers to wealth accumulation rooted in history.
The Racial Wealth Audit™ is a new framework and empirical tool developed by IASP to fill a critical void in our knowledge and ability to proactively reduce the racial wealth gap through policy. It is an essential new measurement tool and framework for assessment to facilitate informed decisions about the role of policy in asset-building incentives, economic stability, and the racial wealth gap. Equally important, it can prevent the unintended side effects of policies that are not explicitly aimed at household wealth or financial disparities, yet contribute to worsening inequality. Enhancing the analytic focus on the role of policy in shaping the racial wealth gap allows policymakers and researchers to make informed decisions about policies that may impact the gap, regardless of whether the policy has an explicit aim to affect wealth disparities.

The Racial Wealth Audit™ will foster greater wealth equality by reshaping the discussion of how policy affects economic disparities across communities. It creates new opportunities for public policy to impact the wealth gap, while avoiding the kind of past policy mistakes that inadvertently magnified the problem, and promotes more informed policy and equity-based engagement from constituencies, advocates, organizations, and policymakers as a normal feature of policymaking.

**Using the Racial Wealth Audit™: Policy Design and Analysis**

The Racial Wealth Audit™ is a policy analysis tool to better understand how a policy or program may impact the racial wealth gap. It is designed to serve multiple audiences by: 1) assessing policy proposals, 2) analyzing the impact of current policy on the racial wealth gap, 3) assisting in new policy design, 4) examining institutional reforms, and 5) investigating narratives that purport to explain racial inequality, such as family structure, child-bear, and conspicuous consumption. The Racial Wealth Audit™ brings the effects of policy on racial disparities to the forefront of policy discussions. This is a much needed, but thus far overlooked, perspective in policymaking.

Using the Racial Wealth Audit™ involves a few analytical steps. It begins with a baseline of representative data to provide an empirical foundation for existing wealth among groups and the major determinants of wealth accumulation. From the starting position of existing disparities, the audit predicts how wealth will grow or decline for affected populations according to the components of a proposed policy. This prediction will utilize the most conservative assumptions possible, avoiding overstating the change in the gap. Finally, the Audit provides insight into the impact of policies on the racial wealth gap within a discrete time period, such as 1 year or 5 years ahead.

The Racial Wealth Audit™ uses the predicted changes in household wealth to measure the racial wealth gap between white households, African American households, and Latino households at the 50th percentile. The analysis provides a measure of change in relative wealth before and after policy implementation, and delivers a concrete comparison of policy options. Any policy audit could include multiple iterations of analysis in order to investigate shifting components (such as thresholds for program inclusion) that may produce different results on the racial wage gap. The new focus on wealth disparities adds significant insights regarding the context and material consequences of adopting a policy. The Racial Wealth Audit™ is intended for use with any policy that potentially has an effect on the racial wealth gap; it is of particular use for wealth-building policies, but will prove valuable for broader policy objectives as well.

**Developing Better Policy Using the Racial Wealth Audit™**

Constituents, advocates, researchers, and policymakers have access to better information about public policy decisions through The Racial Wealth Audit™. It is the first research and measurement tool to bring racial and ethnic wealth analyses to the forefront of policy discussions. Most policy development proceeds without an evaluation of the outcomes on racial and ethnic wealth disparities; the Racial Wealth Audit™ will bring those effects to light before policies are approved or put into action.
One of the strengths of the Racial Wealth Audit™ is its ability to compare several policy iterations within the framework of a broader policy proposal. This feature makes the Audit a key resource for selecting amongst similar policies with disparate effects on wealth. The precise design characteristics of a policy can determine whether the policy will lessen or augment the racial wealth gap; thus, it is a distinct advantage to be able to evaluate both the overall racial wealth impacts of a policy proposal and the differential impacts across the particular aspects of a policy.

For example, IASP tested the effects of a college loan reduction program that would eliminate a fraction of student loan debt, thereby improving an indebted household’s net worth, financial security, and investment options. At the median, white households, African American households, and Latino households maintain widely different values of student loan debt and earn widely different incomes. As a result, the effects of the debt reduction policy for each of these groups differ as well. IASP used the Racial Wealth Audit™ to evaluate the policy at different eligibility cutoffs and levels of debt relief. Surprisingly, the analysis showed that some levels of inclusion actually increased the racial wealth gap, while others contributed to its reduction. Assessing a proposal with the Racial Wealth Audit™ makes it possible to fine-tune policy to achieve its intended goals while maintaining a positive impact on racial equity.

Demos and IASP Partnership for Narrative and Policy Development

The reach and efficacy of the Racial Wealth Audit™ will benefit from collaboration between IASP and Demos. IASP, housed at the Heller School for Social Policy and Management at Brandeis University, is an established leader in providing research and resources that promote economic opportunity and equity. The director, Professor Tom Shapiro, is an expert in the field of asset-building and an award-winning scholar of wealth inequality between white and African American households in the U.S. Demos is a public policy organization that works to ensure an America where we all have an equal say in our democracy and an equal chance in our economy. Demos’ work provides a bridge in understanding political and economic inequality and engages a network of experts, allies, and media to turn ideas into action.

Over the coming year, IASP and Demos will release a series of reports that demonstrate the value of the Racial Wealth Audit™ and apply it to specific policy proposals from across the political spectrum, looking in particular at areas that have been shown to contribute to the racial wealth gap: education, housing, and work. In addition to evaluating specific policies, the Racial Wealth Audit™ will assess the most prevalent cultural narratives about racial inequality, how it occurs, and what can and should be done to address it. Discussing these ingrained and popular narratives is a core challenge to understanding inequality and providing an evidence-based strategy for reducing its worst effects. Holding commonly assumed, ideological, and default explanations accountable to evidence is a critical step in building new understandings of the racial wealth gap.

With growing knowledge about the importance of wealth to family financial security, it is increasingly clear that reducing the racial wealth gap will be an important part of ensuring broad-based and equitable economic security for all families and communities in the United States. With the Racial Wealth Audit™, constituents, advocates, organizations, and policymakers can achieve this goal by making informed decisions about the impacts of new policy ideas on racial disparities in wealth.
End Notes

1. Authors’ calculations of 2010 Survey of Consumer Finances (SCF) sponsored by the Federal Reserve Board comparing the median wealth of households by race and ethnicity. At the median, white households have a net worth of $123,380, while median African American and Latino households hold $15,570 and $15,000 respectively.

2. Subgroup analysis by race and ethnicity for Asian Americans and Native Americans is often difficult with nationally represented surveys due to small sample sizes; thus, our analyses focus on African American, Latino, and white households, given the small sample sizes for other groups.

3. Racial wealth gaps are typically presented at the median (50th percentile) of the distribution for each group which is a preferred measure over the mean due to the skewed distribution of wealth towards very high wealth holdings among a few households. Wealth gaps can also be tested at other percentiles, for example, at the 30th percentile.

4. Analysis conducted with the 2010 Survey of Consumer Finances (SCF).

References


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