Researchers Design New Tool to Measure the Impact of Public Policy Choices on the Racial Wealth Gap

Boston—Though much research has been devoted to how public policy choices such as increasing the minimum wage can address economic disparities, there has been no systematic analysis of the types of public policies that offer the most potential for reducing the racial wealth gap. In The Racial Wealth Gap: Why Policy Matters, researchers from Demos and the Institute for Assets and Social Policy (IASP) at Brandeis University's Heller School for Social Policy and Management design a new tool—the Racial Wealth Audit—to evaluate the impact of housing, education, and labor markets on the wealth gap between White, Black, and Latino households and to assess how far policies that equalize outcomes in these areas could go toward the reducing the gap. They find that to greatly reduce the racial wealth gap policymakers must confront its historic and policy root causes. These include discriminatory housing practices, racial and ethnic inequality in the U.S. labor market, and educational inequities.

Using the Racial Wealth Audit, the authors examine the impact of policies on the racial wealth gap within a discrete time period and deliver a concrete comparison of policy options. They show that addressing disparities in homeownership rates and returns to income would substantially reduce the wealth gap. Eliminating disparities in college graduation and the return on a college degree would have a modest direct impact on the racial wealth gap.

“Over the past few years, economic inequality has rightly moved to the center of public discourse, but what’s less acknowledged is the racial dimensions of this inequality, created and perpetuated by public policy, “ said Tamara Draut, Demos Vice President of Policy and Research. “The racial wealth audit demonstrates that the rules of our economy have continually and often deliberately constructed barriers to wealth accumulation for people of color,” said Draut.

“Our analysis shows that if policymakers truly hope to address the racial wealth gap and enable more families to build assets, they must act to remove the structural barriers to wealth, such as ongoing residential segregation and the proliferation of low-wage jobs that lack benefits,” said Thomas Shapiro, IASP Director.
Key findings include:

• In 2011, the median White household had $111,146 in wealth holdings, compared to just $7,113 for the median Black household and $8,348 for the median Latino household.

• If Blacks and Latinos were as likely as White households to own their homes, median Black wealth would grow $32,113 and the wealth gap between Black and White households would shrink 31 percent. Median Latino wealth would grow $29,213 and the wealth gap with White households would shrink 28 percent. If Blacks and Latinos saw the same financial gains as Whites as a result of being homeowners, median Black wealth would grow $17,113 and the wealth gap between Black and White households would shrink 16 percent. Median Latino wealth would grow $41,652 and the wealth gap with White households would shrink 41 percent.

• Eliminating racial disparities in college graduation rates would grow median Black wealth by $1,313 and shrink the wealth gap between Black and White households 1 percent. Median Latino wealth would grow $3,528 and the wealth gap with White households would shrink 3 percent. Equalizing the return to college graduation would grow median Black wealth by $10,786 and shrink the wealth gap between Black and White households 10 percent. Median Latino wealth would grow $5,878 and the wealth gap with White households would shrink 6 percent.

• If public policy successfully eliminated racial disparities in income, median Black wealth would grow $11,488 and the wealth gap between Black and White households would shrink 11 percent. Median Latino wealth would grow $8,765 and the wealth gap with White households would shrink 9 percent. If the return to income were equalized, so that each additional dollar of income going to Black and Latino households was converted to wealth at the same rate as White households, median Black wealth would grow $44,963 and median Latino wealth would grow $51,552. This would shrink the wealth gap with White households by 43 and 50 percent, respectively.

The Racial Wealth Audit is designed to fill the void in the research on factors contributing to the racial wealth gap and to clarify how policy can reduce this gap. This report is the first in a series of policy briefs that will use the Racial Wealth Audit to analyze specific public policies and policy proposals. Upcoming reports will further demonstrate how the Racial Wealth Audit can be used to improve prospects for future generations by allowing policymakers to determine how proposed policies would affect the racial wealth gap.