

SPOTLIGHT EXCLUSIVES

Which Policies Will Cut the Racial Wealth Gap?



Amy Traub, Demos, posted on January 26, 2016

America's growing inequality is well-documented (<http://www.nber.org/papers/w20625>). Less discussed is its intersection with another of the country's defining trends, growing diversity.

Racial disparities in wealth are vast. And addressing inequality now and in the years ahead, means thinking seriously about the racial wealth gap and the steps we can take to ameliorate it.

The statistics are stark. The typical black household now possesses (<http://www.demos.org/publication/racial-wealth-gap-why-policy-matters>) just 6 percent of the wealth owned by the typical white household, and the typical Latino household owns only 8 percent of the wealth of the typical white household. There was not sufficient data on Asian or Native American households to include in the analysis.

These wealth disparities are rooted in historic injustices, but they are maintained and extended by policies that continue today. Colorblind policymaking has not been sufficient to address the wealth gap: to build a more equitable and secure future, policymakers must actively work to reverse public policies that fuel racial disparities in wealth. But which policies could make the greatest difference?

In a study (http://www.demos.org/sites/default/files/publications/RacialWealthGap_1.pdf) I completed last year with colleagues from Demos and researchers from the Institute for Assets and Social Policy (IASP) at Brandeis University, we used a new tool, the Racial Wealth Audit (<http://www.demos.org/publication/racial-wealth-audit-measuring-how-policies-shape-racial-wealth-gap>), to evaluate how much attaining equality in different policy areas would diminish overall wealth gaps.

We examined how the racial wealth gap at the median would change if black and Latino households owned their homes at the same rate as white households, earned college degrees at the same rate, or earned comparable incomes. We then also analyzed how the wealth gap would change if typical black and Latino households saw the same financial return on these achievements as the typical white household.

In almost every case, we found that equalizing the *returns* to any given achievement (whether it is homeownership, college graduation, or income parity) makes a greater impact on the racial wealth gap than eliminating disparities in home purchases, college graduation rates, or wages.

Consider income: in 2011, the median white household had an income of \$50,400 a year compared to just \$32,028 for blacks and \$36,840 for Latinos. Yet we find that even if median incomes were equal (if the median black and Latino household also made \$50,400 annually), the impact on the racial wealth gap would be modest – amounting to only a 9 percent decrease for Latinos and 11 percent for blacks. So simply closing the pay gap will not be enough to achieve equity.

A much more substantial reduction in the racial wealth gap is associated with equalizing the return that households accrue based on each additional dollar of income. For each dollar in income white families earn, they see a return of \$19.51, compared to a return of only \$4.80 on each dollar for black families and \$3.63 for Latino families.

If public policy successfully equalized the return to income so that each additional dollar of black or Latino income was converted to wealth at the same rate as in white households, the wealth disparity between black and white households would be cut in half, while the gap between Latino and white households would also be nearly halved. In dollar terms, median black wealth would grow \$44,963 and median Latino wealth would grow \$51,552.

How could this be accomplished? We can start by considering how labor market dynamics contribute to disparities in turning income into wealth.

For example, blacks and Latinos are less likely than white workers (<http://www.bls.gov/opub/mlr/2014/article/job-characteristics-among-working-parents.htm>) to have jobs that include employer-provided benefits such as health coverage, a retirement plan, or paid time off. As a result, families of color have fewer opportunities to save because they must use their current income to deal with more of life's challenges. Income that is spent to cover a medical bill (or to help support an elderly parent who herself has no retirement income beyond Social Security) cannot be saved, invested, and turned into wealth.

While this analysis just scratches the surface, it does suggest policy interventions to address this aspect of the racial wealth gap. Better enforcement of laws prohibiting employment discrimination is one logical step. Even though employment discrimination on the basis of race or national origin has been illegal for decades, there is substantial research evidence (<http://www.law.virginia.edu/pdf/workshops/0708/pager.pdf>) that it persists. Immigration reform could make it easier for some Latino workers to attain jobs with better benefits.

Laws making it easier to form labor unions also offer promise. Research shows that union membership does even more to increase access to key employment benefits (<http://www.epi.org/publication/ib342-unions-inequality-faltering-middle-class/>) like health coverage and retirement plans for people of color than it does for whites.

While our report helps lay a foundation for understanding the relationship between public policy and racial wealth inequality, there is still much work to be done. The next step is to use the Racial Wealth Audit tool to look at the individual impact of specific potential policies. In our subsequent report, (<http://www.demos.org/publication/less-debt-more-equity-lowering-student-debt-while-closing-black-white-wealth-gap>) Demos and IASP analyzed how a specific policy proposal on higher education could impact the racial wealth gap.

Whatever the policy, we need to recognize racial wealth gaps as a key component of the broader issue of inequality and make addressing these disparities a central priority. The Racial Wealth Audit tool can play a role in catalyzing and informing these efforts.

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