

Alabama

Four reasons the racial wealth gap is a massive hoax



Is the racial wealth gap a myth?



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Last week, several news organizations released information about the dreaded perils of the widening racial wealth gap. Only one problem with all of this wealth gap buzz: it's one massive hoax. Below are four of the top myths that keep this hoax alive. In addition, each myth includes a detailed reason for why it isn't true.

Myth 1: Whites have had such a head start that blacks can't catch up

Obviously, whites have had an historical advantage for quite some time due to horrible slave era indoctrination and rampant Jim Crow era discrimination. But that advantage is not long-term. We proved that last summer when we showed that black households have the tools to **close the racial wealth gap within a generation**. In practical terms, Asian-Americans have already closed the wealth gap for their subset of the population. According to **CNN**, in 1989, the median Asian-American household had half the median net worth of a white household. And now, Asian-Americans have two-thirds the median net worth of whites. But why is that median wealth gap so easy to shrink?

The answer is complacency. That's the only phenomenon that can explain why **white households** only have a median net wealth of \$144,200. For all the advantages white households have had for decades, white median net wealth is still only equivalent to the value of a modest house in the small town of Cullman, Alabama. As a result, the white median net wealth statistic should no longer be viewed as insurmountable; it should be viewed as highly achievable.

Myth 2: Blacks with degrees or in two-income households get shorted

When normal people perpetuate this myth, it's forgivable. When organizations like **NPR** perpetuate this myth, it's appalling. Let's first take a stab at the part about college degrees.

Everyone should already know this, but college degrees don't necessarily equate to a large income. For black college students, that's certainly the case. According to **research from Georgetown University**, black college students are more likely to pursue majors that lead to low-paying jobs. This is most attributed to black college students being overrepresented in the fields of human services, community organization, and social work. While these black students may eventually graduate with a degree, they obviously won't command the salary of an engineer or a computer scientist. That's not a conspiracy against black students. The job market just simply rewards certain college majors more than others.

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With the college degree myth out of the way, let's talk about the two-income household myth. Just because a person is part of a two-income household, it doesn't mean that household is high-income. This is exacerbated by **high-income individuals** marrying each other as opposed to marrying someone with a smaller income. Since blacks don't typically have high incomes, a modest income black spouse will likely marry another modest income black spouse. Again, this is not a conspiracy against African-American courtship. The old adage is just true: birds of a feather flock together.

Myth 3: Even wealthy blacks who do "everything right" can't get ahead

We won't get into what's right and what's wrong, but we will focus on what's different. The wealth habits of wealthy blacks and wealthy whites are very different. Likewise, different results take place.

As we reported **last summer**, the top 5 percent of black households own few high-reward portfolios containing stocks, bonds, and mutual funds and more low-reward portfolios containing CDs, saving bonds, and cash-value life insurance. Meanwhile, white households of similar high wealth steer clear of such low-reward investments.

Because of these seemingly harmless choices, wealthy blacks end up with annualized returns of 1 to 2 percent whereas wealthy whites end up with annualized returns of 7 to 10 percent.

Now whites may not be doing "everything right" either, but they are getting bigger results. And that's all that ever really matters.

Myth 4: Blacks can't get ahead due to lower chance of financial inheritances

While [financial inheritance](#) is often brought up as a huge factor for wealth inequality, it really isn't a factor as much as people think it is. Last week, [Bloomberg BusinessWeek](#) became one of those guilty parties that believes financial inheritance is the difference maker. If we look at the data though, we see another narrative.

Since most households (black or white) don't have enough accumulated wealth to do anything impactful with, life insurance is how most median income households pass wealth from generation to generation. Unfortunately, 4 out of 10 adults have [no life insurance](#). As for the adults that do have life insurance, the median amount of coverage is only \$115,000. While \$115,000 seems like a lot at first, if a median income household inherited that amount and lived on it, the amount would only last a few years.

Again, we aren't talking about insurmountable numbers here. If white households had a median net wealth of \$1 million, then maybe there might be some concern. But these numbers we're dealing with can truthfully be attained by almost any black household with the right fit of financial literacy education and wise counsel.

Sadly, America's greatest hoax keeps everyone in the dark. That's why it's finally time to start walking in the light.

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