PUBLIC POLICY, INSTITUTIONAL BARRIERS ARE PUSHING RACIAL WEALTH GAP

Study Finds that Even Same Gain in Income Produces far Greater Wealth for White Households than Black Families

WASHINGTON, D.C. – New research shows the dramatic gap in household wealth that now exists along racial lines in the United States reflects policies and institutional practices that create different opportunities for whites and African-Americans, and that personal ambition and behavioral choices are but a small part of the equation.

So powerful are these government policies and institutional practices that for typical families, a $1 increase in average income over the 25-year study period generates just $0.69 in additional wealth for an African-American household compared with $5.19 for a white household, in part because black households have fewer opportunities to grow their savings beyond what’s needed for emergencies.

The study, “The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide,” was conducted by the Institute on Assets and Social Policy (IASP) at Brandeis University.

The research is unique in that it has followed the same nearly 1,700 working-age households over what is now a 25-year period – from 1984 to 2009. Unlike standard statistical comparisons, this approach offers “a unique opportunity to understand what happens to the wealth gap over the course of a generation and the effect of policy and institutional decision-making on how average families accumulate wealth,” according to the authors.

In gross terms, there is no question that the difference in median wealth between America’s white and African-American households has grown stunningly large. The new study found the wealth gap almost tripled from 1984 to 2009, increasing from $85,000 to $236,500. The median net worth of white households in the study has grown to $265,000 over the 25-year period compared with just $28,500 for the black households.

The dramatic increase in the racial wealth gap materialized and accelerated despite the country’s movement beyond the Civil Rights era into a period of legal equality and the election of the first African-American president. The resulting “toxic inequality” now threatens the U.S. economy and indeed, American society, the study concludes.

“All families need a financial cushion to be economically secure and create opportunities for the next generation,” said Dr. Thomas Shapiro, the director of the IASP and a principal author of the report. “Wealth – what we own minus what we owe – allows families to move forward by moving to better and safer neighborhoods, investing in businesses, saving for retirement and supporting their children’s college aspirations. Our economy cannot sustain its growth in the face of this type of extreme wealth inequality.”
Given the dramatic gap in racial wealth, the researchers set out to determine what was driving the disparity today. They were able to statistically validate five “fundamental factors” that together account for two-thirds of the proportional increase in the racial wealth gap. Those five factors include the number of years of home ownership; average family income; employment stability, particularly through the Great Recession; college education, and family financial support and inheritance. Marriage also is another factor, but its impact is quite small, the study found.

“In the context of the social sciences, whenever you can isolate the factors that really explain what’s happening, that’s a huge step forward,” said Shapiro. “And what these particular factors provide is compelling evidence that various government and institutional policies that shape where we live, where we learn and where we work propel the large majority of the widening racial wealth gap.”

For each of the factors, detailed research highlighted a number of very specific reasons that whites and African-Americans accumulate wealth at different rates. When it came to housing, for example, home equity rose dramatically faster for whites because:

- White families buy homes and start acquiring equity eight years earlier than black families since, due to historical wealth advantages, they are far more likely to receive family assistance or an inheritance for down payments.
- The ability to make larger up-front payments by white homeowners lowers interest rates.
- Residential segregation places an artificial ceiling on home equity in non-white neighborhoods.
- Based on these and other historical factors, the home ownership rate for white families is 28 percent higher.

“The report shows in stark terms that it’s not just the last recession and implosion of the housing market that contributed to widening racial wealth disparities,” noted Anne Price, director of the Closing the Racial Wealth Gap Initiative at the Insight Center for Community Economic Development. “Past policies of exclusion, such as discriminatory mortgage lending, which continues today, ensure that certain groups reap a greater share of all America has to offer while others are left out.”

The report recommends that policymakers take such steps as strengthening and enforcing fair housing, mortgage and lending policies; raising the minimum wage and enforcing equal pay provisions; investing in high-quality childcare and early childhood development, and overhauling preferential tax treatments for dividend and interest income and the home mortgage deduction.

“By disaggregating the factors that lead to the wealth gap, this research is informing leaders and helping them to focus their advocacy efforts toward policy solutions,” said Angela Glover Blackwell, founder and CEO of PolicyLink, a national research and action institute advancing economic and social equity.

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The Institute on Assets and Social Policy is a research institute at Brandeis University’s Heller School for Social Policy and Management, dedicated to promoting a better understanding of how assets and asset-building opportunities improve the well-being of individuals and families left out of the economic mainstream.