The Racial Wealth Gap
THOMAS M. SHAPIRO and JESSICA L. KENTY-DRANE

In this chapter, addressing wealth inequality in the United States, Shapiro and Kenty-Drane describe the relationship between racial inequality and wealth accumulation. They highlight the importance of sociohistorical legacies in a family's ability to amass household wealth. The authors stress the significant impact of slavery and residential segregation on modern-day wealth inequality. Presenting recent national data on wealth, the authors document a black-white wealth gap ratio of 0.10 and an asset poverty rate of 25 percent for white households compared to 55 percent in black households. The black-white wealth gap can be explained by inequality in household income and differential distributions in inheritances by race. The authors conclude that the wealth gap is rooted in historical legacy: it is perpetuated by government policies and discrimination that result in residential and school segregation as well as a significant gap in potential inheritances between white and black households.

The past decade has proven to be an important period in understanding household economic stability. The financial security of a household has historically been measured by a family member's place in the labor market, including employment status and earnings. Since the work of Sherraden in *Assets and the Poor* (1991), the concept of wealth has become increasingly incorporated into modern measures of family economic well-being. By itself, income is an insufficient measure of household socioeconomic status. Wealth accumulation has proven to be as important as income, if not more so, in discerning the life chances of household members.

In recognizing the role of wealth, researchers have paved the way for a critical assessment of racial inequality in America. Wealth accumulation occurs via three pathways: inheritances, earnings, and savings. The work of Oliver and Shapiro in *Black Wealth/White Wealth* (1995) documents how racial disparity accrues across these means of wealth accumulation. They demonstrate the structural barriers to wealth accumulation and the way these obstacles are connected to racial inequality, particularly for African Americans. Their work asserts that current disparities in wealth accumulation stem from historical racist policies, contemporary practices, and government policies.

**OBSTACLES TO BLACK WEALTH ACCUMULATION**

The impact of slavery on modern wealth distribution must not be underestimated. Slavery, the most extreme form of institutional racism, not only denied blacks freedom but also kept them from receiving appropriate compensation for their work and from improving the economic
future of their families. Slaves were prohibited from entering into contracts and from purchasing property or land. These laws ensured that slaves were constrained from securing and accumulating assets. The outlawing of slavery did not rectify this matter. Institutional policies thwarted black wealth accumulation throughout U.S. history, as exemplified by residential segregation.

Blacks and whites continue living in separate neighborhoods long after official segregation, passage of major civil rights, fair housing and lending laws, and growth of a black middle class—a scenario some scholars call "American apartheid." In Poverty and Place, sociologist Paul Jargowsky details the importance of racial and economic segregation in determining inner-city poverty, noting a trend of increasing economic segregation alongside decreasing racial segregation. As of 2000, three-quarters of blacks live in highly segregated communities. Residential segregation persists at high levels: it remains a powerful force undermining the well-being of blacks, who are concentrated in communities with weak public services, such as hospitals, transportation, police, and fire protection; decreased housing appreciation; and inferior schools.

Federal housing, tax, and transportation policies helped to shape communities so that they would be highly segregated, racially as well as economically. Mortgage discrimination, redlining, and predatory lending practices reinforce residential segregation. Furthermore, racism remains a driving force behind community preference and white flight. Finally, neighborhoods remain highly segregated through deliberate acts of racial avoidance, violence and the threat of violence against minorities, local zoning decisions, and the isolation of public housing.

In the twenty largest metropolitan areas, where 36 percent of all African Americans live, segregation pervades basic dimensions of community life. The residential color line means that blacks have greater difficulty overcoming problems associated with poor communities, especially crime, violence, housing abandonment, unstable families, poor health and high mortality, environmental degradation, and failing schools. No other group experiences segregation to the extent that blacks do. In many geographica-
The racial composition appears to be the most salient feature determining home values. Homes lose at least 16 percent of their value when located in neighborhoods that are more than 10 percent black. Furthermore, properties decrease more steeply in neighborhoods with larger percentages of blacks. While white flight is a taken-for-granted social process, it is not just something that happens: it is propelled by family actions.

**THE ASSETS AND INEQUALITY PROJECT**

Our own research documents the present significance of race in wealth inequality. Using longitudinal data from the 1999 Panel Study of Income Dynamics (PSID), we have demonstrated significant racial wealth disparities. We have also revealed the multiple mechanisms that propagate these inequities. For a full understanding of the data we present here, it is key that readers grasp the concepts we use to measure household wealth: net worth and net financial assets. Net worth is a measure of everything a household owns minus what they owe. Net financial assets is a measure of net worth minus some equity. Home equity is the value of the home net of mortgages. Net worth is a useful measure of wealth because it sums the households assets. We use net financial assets as well because the majority of most households wealth is built on their home equity. Using a measure that removes equity in a home allows us to see how much a family possesses besides their home.

**The Black–White Wealth Gap**

From our analysis of 1999 PSID data, we see in Figure 19.1 that the black-white wealth-gap ratio is 0.10, with typical white households having an overall median net worth of nearly $81,450 and blacks a median of just $8,000. The ratio for net financial assets is even lower, 0.09, with typical white families having median net financial assets of $33,500 and blacks possessing just $3,000. This disparity exists even when we compare whites and blacks in the top 20 percent category of income earners, as seen in Table 19.1. Top earners who are white have a net worth of $133,600 and net financial assets of $40,500, whereas top-earning blacks possess just $43,800 of net worth and a mere $7,500 in net financial assets.

**Asset Poverty**

Poverty thresholds for income have long been used to assess the economic well-being of households. The recognition of the impact of wealth has presented an opportunity to assess asset poverty as well. A concept of asset poverty helps us to understand the asset condition of American families. The fundamental idea is to determine the amount of assets needed so that a family can meet its basic needs over a specified period under the extreme condition that no other sources of income are available. We decided to tie this figure to the official income poverty standard. In 1999, the official U.S. government poverty line for a family of four stood at $1,392 a month. To live at the poverty line for three months, a family of four needed a

---

**Table 19.1 Wealth by Income and Race**

<table>
<thead>
<tr>
<th>Income Class</th>
<th>White</th>
<th>Black</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NW</td>
<td>NFA</td>
</tr>
<tr>
<td>highest fifth median</td>
<td>133,607</td>
<td>40,465</td>
</tr>
<tr>
<td>second-highest median</td>
<td>65,998</td>
<td>13,362</td>
</tr>
<tr>
<td>middle fifth median</td>
<td>50,350</td>
<td>6,800</td>
</tr>
<tr>
<td>second-lowest median</td>
<td>39,908</td>
<td>3,599</td>
</tr>
<tr>
<td>lowest fifth median</td>
<td>17,066</td>
<td>7,400</td>
</tr>
</tbody>
</table>

*Note: NW = net worth; NFA = net financial assets.*
Figure 19.1 Family income and family wealth chart.
private safety net of at least $4,175. Families with less than $4,175 in net financial assets in 1999, then, were "asset poor." As the basis for our calculation, this is a conservative standard because it incorporates the official government poverty line, which many believe underestimates the actual scope of poverty. It also employs a three-month standard, even though one could argue just as reasonably for a six-month standard. Although we believe our built-in assumptions underestimate asset poverty among America's families, we want to stay focused on the basic idea of asset poverty. It is our hope that as these ideas are accepted, bold conceptions will follow.

Using data from the PSID, we found that relative to income poverty, asset poverty can be found in many households. In 1999, approximately 8 percent of white households were at the income poverty line, whereas nearly 25 percent were at the asset poverty line, as seen in Figure 19.2. For black families the numbers are even more dramatic. While 33 percent of black households are at the income poverty line, almost 55 percent suffer from asset poverty. When assets are examined, the fragility of American families is revealed, as is a huge disparity between asset-poor white and black families.

CONCLUSION: EXPLAINING THE BLACK–WHITE WEALTH GAP

Revealing the primary mechanisms related to wealth accumulation is vital if we hope to promote the growth of wealth among African American families. Our research has demonstrated several components important to asset accumulation. Several variables demonstrate a positive relationship with wealth: white households, age of head, having a college degree, middle-class occupational status, employment stability, retirement, home ownership, income, and receiving an inheritance. Several other variables demonstrate a negative relationship with wealth accumulation: living in the South, number of children, and being a widow. However, when combined, these variables explain a mere 17 percent of the variation in wealth accumulation.

The most important contributor to wealth accumulation by far is household income. This finding provides us with an opportunity to explain some of the black–white wealth gap that exists. For each dollar of income a family earns, white families gain $3.25 in net worth. Contrast this amount with black families, who accumulate just under $2 of net worth for each dollar of income. Thus, not only are blacks earning less than whites are in terms of income (0.59 ratio), but they are accumulating less wealth for their earnings, dollar for dollar.

Another important explanation for the black–white wealth gap is the receipt of inheritances. The chance of receiving an inheritance is highly correlated with the economic wealth of one's parents. The greater the wealth of one's parents, the greater the inheritance a family is likely to receive. Inheritance provides us with a unique lens to examine the accumulation of wealth. Inheritances are sums of money that are distributed without regard to need or merit. They are gifts passed along from generation to generation. PSID data collected in 1988 documents a significant racial gap in parental wealth. White households estimated their parent's median wealth at $150,000, whereas black households valued theirs to be approximately $35,000. White families have a much greater chance of receiving a significant inheritance than do black families. Thus, white households will accumulate a greater proportion of wealth faster because of this inequity and the significance of inheritances for wealth accumulation.

African Americans cannot earn themselves out of the racial wealth gap. The huge racial wealth gap is a historical legacy that the past continually visits on current generations. But it is more than an obdurate past. The racial wealth gap also results from significant and continuing government policies and discrimination that result in residential and school segregation. Finally, the baby boomer generation—some of whose parents accumulated considerable wealth assisted by the Federal Housing Administration, home mortgage interest deduction, and other government policies—is passing to its adult children the largest wealth transfer in U.S. history. The racial wealth gap thus illustrates how hard-earned gains in
Figure 19.2  Asset poverty line; percentage below poverty line.
salaries, jobs, and education fail to improve racial inequality.

NOTES

1. The volume by Thomas Shapiro and Edward Wolff, *Assets for the Poor* (2001), provides a number of significant research papers that assume this challenge.


3. A good synopsis of these practices and policies can be found in Kenneth Jackson's *Crabgrass Frontier* (1985) and Guy Stuart's *Discriminating Risk: The U.S. Mortgage Lending Industry in the Twentieth Century* (2003).


6. This figure comes from analysis of PSID data; the full analysis can be found in Shapiro, *The Hidden Cost of Being African American*.

7. See http://psidonline.isr.umich.edu.

8. The full regression models can be found in Shapiro, *The Hidden Cost of Being African American*.

BIBLIOGRAPHY


