

WEALTH

The Stanford Center on Poverty and Inequality

BY THOMAS SHAPIRO

“Yes, there have been examples of success within black America that would have been unimaginable a half-century ago, ... [but] the gap in wealth between races has not lessened, it’s grown.”

—President Barack Obama, August 28, 2013, commemorating the 50th anniversary of the March on Washington for Jobs and Freedom.

The social sciences traditionally have relied upon income and earnings to understand inequality, living standards, poverty, and program eligibility. This is partly for reasons of data availability: Data on family financial assets and liabilities have simply not been collected until recently. Nationally representative surveys have collected information on wealth only since the mid-1980s. The research and policy worlds have since been playing catch-up: New results on wealth inequality and racial or ethnic wealth gaps have increasingly become part of the public, policy, advocacy, and scholarly discourse.¹

This discussion of wealth has changed how we understand the sources of inequality. Whereas income is tied to contemporary labor markets and how work is valued, wealth brings past policies and institutional arrangements more directly into the picture, especially those pertaining to housing and its intergenerational transmission. This is because (a) wealth often results from direct intergenerational transmission, and (b) homeownership is the largest reservoir of family wealth, constituting two-thirds of all middle-class wealth. To understand wealth accumulation, we must therefore understand the housing market and residential segregation. These two institutions have been deeply shaped by policy in the form of subsidies via federal tax expenditures and home-financing regulations. The relationship between wealth and overt policy is thus unusually strong.

Why should we care about wealth? It serves an insurance function by protecting against economic shocks, health and personal crises, and mishaps. It brings access to quality health care, educational opportunities, better-resourced

KEY FINDINGS

- African-Americans own less than 8 cents and Hispanics less than 10 cents of wealth for every dollar amassed by whites.
- The racial wealth divide increased threefold (in absolute dollars) among families followed between 1984 and 2013.

communities, and other services. It shapes family economic mobility. It provides retirement security and a springboard for future generations’ investments in human capital and resources. And finally, social and political influence, as well as personal identity, are attached to wealth.

It thus matters whether opportunities to amass wealth are equally available. The simple result that will be discussed here: Access to building wealth is vastly unequal.

It’s partly that wealth begets wealth. It increasingly matters whether one is so lucky as to be born into a wealthy family.² The story of racial and ethnic wealth inequality is, then, partly a “starting point” story. African-American and Hispanic children are born into families that are, on average, less wealthy, which disadvantages them in a host of ways, affecting the prospects of both current and future generations. Wealth gaps are a core determinant of many forms of racial and ethnic inequality in the United States.

Measuring Racial and Ethnic Wealth Gaps

The Federal Reserve System conducts the Survey of Consumer Finances (SCF) every three years. To understand the financial condition of families in the United States, nationally representative data are collected on savings, investments, debt payments, pension coverage, business ownership, use of financial institutions, credit discrimination, and financial markets. The SCF data provide a foundational baseline for median family wealth by race and ethnicity.³

What do the data on wealth tell us? As shown in Figure 1, the median white family had \$141,900 in wealth. For every dollar of wealth held by the median white family, the median African-American family had less than 8 cents in wealth, and the median Hispanic family had less than 10 cents.

Although we now have more data on wealth, there are still major problems arising from small sample sizes and researcher neglect. Even when data are sufficient for gauging the wealth of a racial or ethnic group as a whole, the information cannot be disaggregated further. For example, Hispanic wealth can only be measured for all Hispanics, but geographic, historical, cultural, and immigrant histories are likely linked to differential wealth within this broadly defined group. The National Asset Scorecard for Communities of Color⁴ is a welcome recent addition, but the sample size and limited number of cities covered remain a challenge.

The Racial Wealth Gap over Three Decades

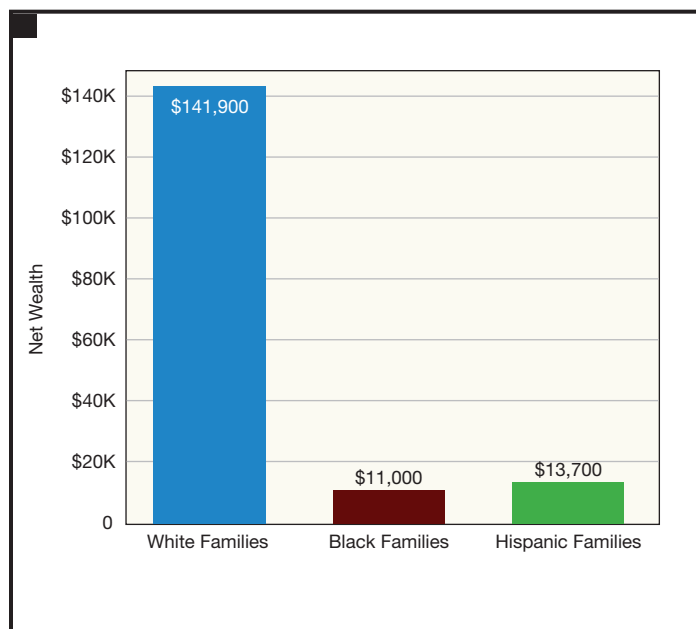
Why are racial and ethnic wealth gaps so large? A plausible hypothesis is that they arise from massive differences in starting conditions that in turn result from historical racial legacies and racialized policies (e.g., residential redlining) as well as immigrant legacies (e.g., immigrants who enter the United

States with limited wealth). The available data, however, do not fully support such an interpretation, at least not in its simplest form.

This question can be addressed by turning to the Panel Study of Income Dynamics (PSID), which has been following a sample of 5,000 families and their descendants since 1968. Primarily focused on income and related attitudinal information, the PSID added a wealth module three decades ago. In 1984, the white-black wealth gap at the median was \$84,400, as shown in Figure 2. These same PSID families experienced American policy, institutions, and communities over the next 29 years, and the racial wealth gap nearly tripled to \$245,000.⁵

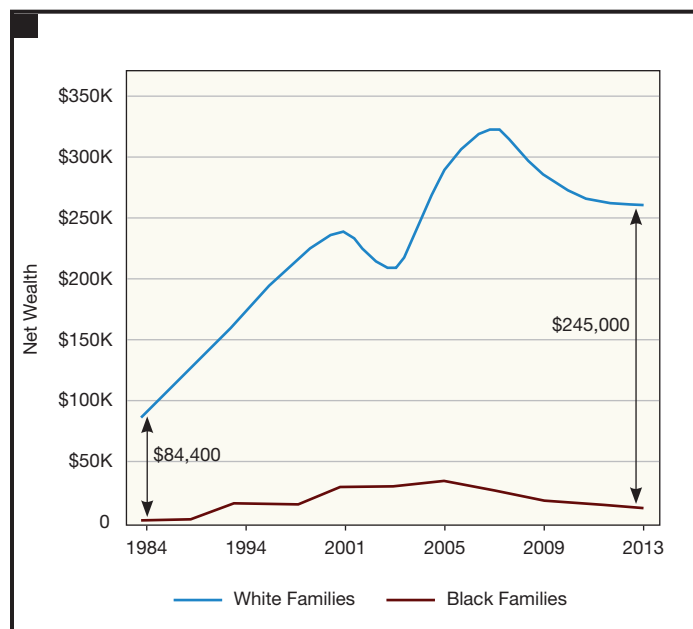
The tripling of the black-white wealth gap was due in part to “starting point” differences. For example, the enormous starting-point racial differences in home equity returned far more wealth to white homeowners than to blacks, as did racial differences in other types of wealth. This is a matter of wealth begetting wealth. But other policies exacerbate and extend such “starting point” differences. For example, there are sizable racial differences in unemployment spells and in educational attainment, both of which independently convert into differential capacities for accumulation.⁶

FIGURE 1. Median Net Wealth by Race and Ethnicity, 2013



Note: Institute on Assets and Social Policy calculations from Survey of Consumer Finances.

FIGURE 2. Wealth Accumulation of PSID Families, 1984–2013



Note: Institute on Assets and Social Policy calculations from Panel Study of Income Dynamics; 2013 dollars.

Conclusions

We need to know much more about the origins of wealth inequalities as well as potential remedies. Scholars of inequality are increasingly examining wealth, but improved data and measurement capacity are needed to understand the persistence of racial and ethnic wealth gaps.⁷

One key innovation would be an Asset Poverty Index, a wealth-based corollary to standard income-based poverty measures. Some policy groups define asset poverty as the minimum amount of wealth needed to keep a family out of poverty for three months. By this definition, 44 percent of American families fell below the asset poverty line in 2009.⁸ This result speaks to the economic fragility of American families.

And black and Hispanic families are especially fragile by this measure. In 2010, 29 percent of Hispanic households and 34 percent of black households owned zero or negative net wealth, as compared to 14 percent of white households. The lack of a wealth buffer makes black and Hispanic households especially vulnerable to everyday shocks (e.g., employment shocks, eviction shocks, car repair shocks) that, perversely, are also more likely to hit them. ■

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NOTES

1. Oliver, Melvin, and Thomas Shapiro. 1995. *Black Wealth/White Wealth: A New Perspective on Racial Inequality*. New York: Routledge.

2. Saez, Emmanuel, and Gabriel Zucman. 2016. "Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Tax Data." *Quarterly Journal of Economics* 131(2), 519–578.

3. The Survey on Income and Program Participation (SIPP) is often utilized for descriptive and analytic purposes when researchers examine race, ethnicity, and wealth.

4. See, for example, Meschede, Tatjana, Dar-rick Hamilton, Ana Patricia Muñoz, Regine Jackson, and William Darity. 2016. "Inequality in the 'Cradle of Liberty': Race/Ethnicity and Wealth in Greater Boston." *Race and Social Problems* 8(1), 18–28.

5. Median wealth for whites in 2013 is higher in Figure 2 than in Figure 1 because Figure 2 follows the same households since 1984, and therefore its sample is of older and higher wealth households in more recent years. The same explanation holds for black households in Figure 2, though black wealth did not increase as much. In contrast, Figure 1 is based on the Survey of Consumer Finances, which draws a nationally representative sample of all households.

6. Shapiro, Thomas, Tatjana Meschede, and Sam Osoro. 2013. "The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide." IASP Research and Policy Brief.

7. For a fuller description, see Shapiro, Thomas. 2017. *Toxic Inequality: How America's Wealth Gap Destroys Mobility, Deepens the Racial Divide, and Threatens Our Future*. New York: Basic Books.

8. Shapiro, Thomas, Melvin Oliver, and Tatjana Meschede. 2009. "The Asset Security and Opportunity Index." IASP Research and Policy Brief.