The Black-White Wealth Gap

**Net worth, more than any other statistic, shows the depth of racial inequality**

**Dalton Conley**

In all the discussions about the Bush tax cut, it seems no one has mentioned the issue of race. This is too bad, since more than any “diverse” Cabinet appointment, more than executive changes in affirmative action regulations, indeed more than any explicitly race-based policy, the $1.6 trillion tax reduction currently on the table will affect prospects for racial equality—for the worse. While African-Americans will be disproportionately left out of the income tax bonanza, the most troubling aspect of Bush’s proposal, from the point of view of racial equity, lies in the repeal of the estate tax.

The federal estate tax, which has been in place since 1916, affects only the richest 1.4 percent of the deceased. As the law currently stands, the first $675,000 of net estate value is exempt from tax for individuals ($1.35 million for couples). Because of a 1997 change in the law, this exemption amount will rise steadily until it reaches $1 million for individuals ($2 million for couples) in 2006. Exemptions are even higher for businesses and farms. Since the number of African-Americans who would benefit is infinitesimally small, Bush’s goal of eliminating the tax altogether would exacerbate the already growing wealth gap between blacks and whites.

In fact, if there is one statistic that captures the persistence of racial inequality in the United States, it is net worth. (If you want to know your net worth, all you have to do is add up everything you own and subtract from this figure your total amount of outstanding debt.) When we do this for white and minority households across America, incredible differences emerge: Overall, the typical white family enjoys a net worth that is more than seven times that of its black counterpart. (Latinos—a very diverse group—overall fare slightly better than African-Americans but still fall far short of whites.)

This “equity inequity,” which has grown in the decades since the civil rights triumphs of the sixties, cannot be explained by income differences alone. That is, while African-Americans do earn less than whites, asset gaps remain large even when we compare black and white families at the same income levels. For instance, at the lower end of the economic spectrum (incomes less than $15,000 per year), the median African-American family has a net worth of zero, while the equivalent white family’s net worth is $10,000. Likewise among the often-heralded new black middle class, the typical white family earning $40,000 per year enjoys a nest egg of around $80,000; its African-American counterpart has less than half that amount. Among the wealthiest Americans, the story is much the same: Oprah Winfrey and Robert L. Johnson (founder of black
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Unequal Opportunity

Stacey Jones, an African-American woman with a graduate degree and a solidly middle-class job, describes a common bind for minority parents: “I am, in effect, priced out of homebuying in good school districts,” she says. “This, in turn, makes it difficult for me to pay more for housing, since I am spending a good deal of my income on education for my children.” For much of the growing black middle class, a lack of assets means living from paycheck to paycheck, being trapped in a job or a neighborhood that is less beneficial in the long run, or not being able to send one’s kids to top colleges. Income provides for day-to-day, week-to-week expenses; wealth is the stuff that upward mobility is made of. Equality of opportunity cannot be achieved under unequal conditions (such as differential access to wealth). Indeed, whether the parents enjoy the American dream of the house, the car and the 401(k) is one of the best predictors of whether a child will have a chance to achieve the same.

For the minority poor, the situation is even more precarious. The $10,000 in equity that impoverished white families enjoy certainly comes in handy when the inevitable economic downturn puts a family member out of work or when a medical crisis strikes. With no asset cushion to speak of, minorities are much more quickly devastated by such a blow.

Equity inequity is, in part, the result of the head start that whites have enjoyed in accumulating and passing on assets. Whites not only earn more now, they have always earned more than African-Americans—a lot more. Wealth differences, in turn, feed off these long-term income differences. Some researchers estimate that up to 80 percent of lifetime wealth accumulation results from gifts in one form or another from past generations of relatives. These gifts can range from the down payment on a first home, to a free college education, to a bequest upon the death of a parent. Over the long run, small initial differences in wealth holdings multiply.

History Matters

There have also been institutional restraints on black property accumulation. After emancipation, blacks were promised “forty acres and a mule” by the Freedmen’s Bureau. Yet the lion’s share of confiscated plantations went to white Northerners, who hired the former slaves to cultivate them, inaugurating the system of sharecropping that would keep blacks asset-poor for many decades. For blacks who tried to escape sharecropping, there were formidable obstacles as well. In many Southern states, African-Americans who tried to set up their own businesses were stopped by “black codes” that required African-Americans (but not whites) to pay exorbitant licensing fees. Similarly, if former slaves tried to go west with the promise of free land by virtue of the Homestead Act, they were likely to find that their claim to title was not legally enforceable in some areas.

In the twentieth century, barriers to black property accumulation remained formidable. The Home Owner’s Loan Corporation helped

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interest, long-term loans for first-time homebuyers. But African-Americans were systematically shut out of participation in these programs because loans were channeled to suburbs and away from central cities, where blacks largely resided.

**Leveling the Playing Field**

A more radical policy alternative has called for reparations to black Americans. Espoused by black separatist organizations in the sixties, the argument for reparations was refined during the seventies. One researcher applied compound interest on 1790-1860 slave prices, calculated since the slavery era. The figure he came up with matched with what the Republic of New Africa (RNA), a prominent separatist group, was asking for: between a half-trillion and a trillion dollars back in the early 1970s. Today Randall Robinson, co-founder and president of TransAfrica, and others are arguing for reparations through comprehensive social programs.

Redlining was outlawed by the 1977 Community Reinvestment Act, although this law was weakened by Congress in 1999. In any case, simply providing African-Americans with the opportunity—or even the means—to become homeowners will not be enough. The problem is that homes in black neighborhoods don’t accrue value at the same rate as those in mostly white areas. Property has the particular attribute of quantifying the social value of ideas or objects. A diamond or a misprinted stamp or a Van Gogh has no inherent productive value. Its price reflects only the value accorded to it in the marketplace. In this vein, when a neighborhood’s housing values precipitately decline as the proportion of black residents rises, the price changes provide a record of social value of “blackness.”

The devaluation of black neighborhoods is partially a result of white fears of a decline in property values and the “white flight” that ensues. It is in the economic interest of white homeowners to sell off when they anticipate that the neighborhood has reached a racial “tipping point,” for fear that others will make the same calculation and sell off first, causing their property to lose value. In other words, there is a causal loop: As long as black neighborhoods are devalued, and whites are a majority and have the ability to decide where they will live, they will have an economic incentive to flee integrated neighborhoods, thus perpetuating the vicious circle.

In this way, blacks and whites are both trapped into reproducing current residential patterns. Even if African-Americans were allowed equal access to the homebuying market and if interest rates were prescribed by law to be the same for blacks and whites, African-Americans would still be at a disadvantage in terms of housing equity, since whites could flee, depressing values for those who remain. Remedies for this situation are difficult to come by. Politically, any policy limiting the market (restricting the ability of white homeowners to sell, for instance) would likely face fierce resistance, since it would fly in the face of the notion of individual choice central to American ideology.

One solution would be to provide “integration insurance.” This form of insurance would protect property owners from any rundown in prices that results from a rash in selling as a neighborhood tips from white to black. With this policy in place, the economic incentive to pull out when a neighborhood starts to integrate would be eliminated. The difficulty lies in the details, of course, especially required to pay the government a certain percentage of that net worth if it exceeded a certain deduction. These funds would be redistributed to the asset-poor through dollar-for-dollar government matching funds, as has been proposed in the Savings for Working Families Act of 2001. Removing the asset restrictions currently built into the welfare system is another good idea: If welfare recipients were able to save without being penalized for their asset accumulation, they would be less dependent on public assistance. Finally, the creation of Individual Development Accounts could foster savings among the asset-poor through matching funds provided by the government through a progressive, refundable tax credit. The Bush tax plan, by contrast, helps (predominantly white) millionaires. If tax credits and other asset-encouraging programs were instead to target individuals and communities that are both income- and asset-deprived, they would inevitably favor minorities while being ostensibly color-blind. Sixty-four years ago, W.E.B. Du Bois claimed that if freed slaves had been provided with the forty acres and a mule they had been promised, it would have made for the basis of a real democracy. He is still right today.

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