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Less Than Equal: Racial Disparities in Wealth Accumulation

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When it comes to economic gaps between whites and communities of color in the United States, income inequality tells part of the story. But let's not forget about wealth. Wealth isn't just money in the bank, it's insurance against tough times, tuition to get a better education and a better job, savings to retire on, and a springboard into the middle class. In short, wealth translates into opportunity.

Policymakers often focus on income and overlook wealth,[1] but consider: the racial wealth gap is three times larger than the racial income gap. Such great wealth disparities help explain why many middle-income blacks and Hispanics haven't seen much improvement in their relative economic status and, in fact, are at greater risk of sliding backwards.

How Have Wealth Inequality and Income Inequality Changed Over Time?

Wealth is not just for the wealthy. The poor can have wealth too—and that wealth can accrue over time or provide collateral for borrowing, giving families a way to move up and out of poverty. A home or a car can offer benefits far beyond their cash value. And even a small amount of savings can help families avoid falling into a vicious cycle of debt when a job loss or financial emergency hits.

Wealth disparities have worsened over the past 30 years (figure 1). High-wealth families (the top 20 percent by net worth) saw their average wealth increase by nearly 120 percent between 1983 and 2010, while middle-wealth families saw their average wealth go up by only 13 percent. The lowest-wealth families—those in the bottom 20 percent—saw their average wealth fall well below zero, meaning their average debts exceed their assets.

There is extraordinary wealth inequality between the races. In 2010, whites on average had six times the wealth of blacks and Hispanics (figure 2). So for every $6.00 whites had in wealth, blacks and Hispanics had $1.00 (or average wealth of $632,000 versus $103,000).[2]

The income gap, by comparison, is much smaller. In 2010, the average income for whites was twice that of blacks and Hispanics ($89,000 versus $46,000), meaning that for every $2.00 whites earned, blacks and Hispanics earned $1.00.

How have these two measures changed over time? Neither has improved, but while the income gap has stayed roughly the same, the wealth gap has grown. In 1983, the average wealth of whites was roughly five times that of black and Hispanics.

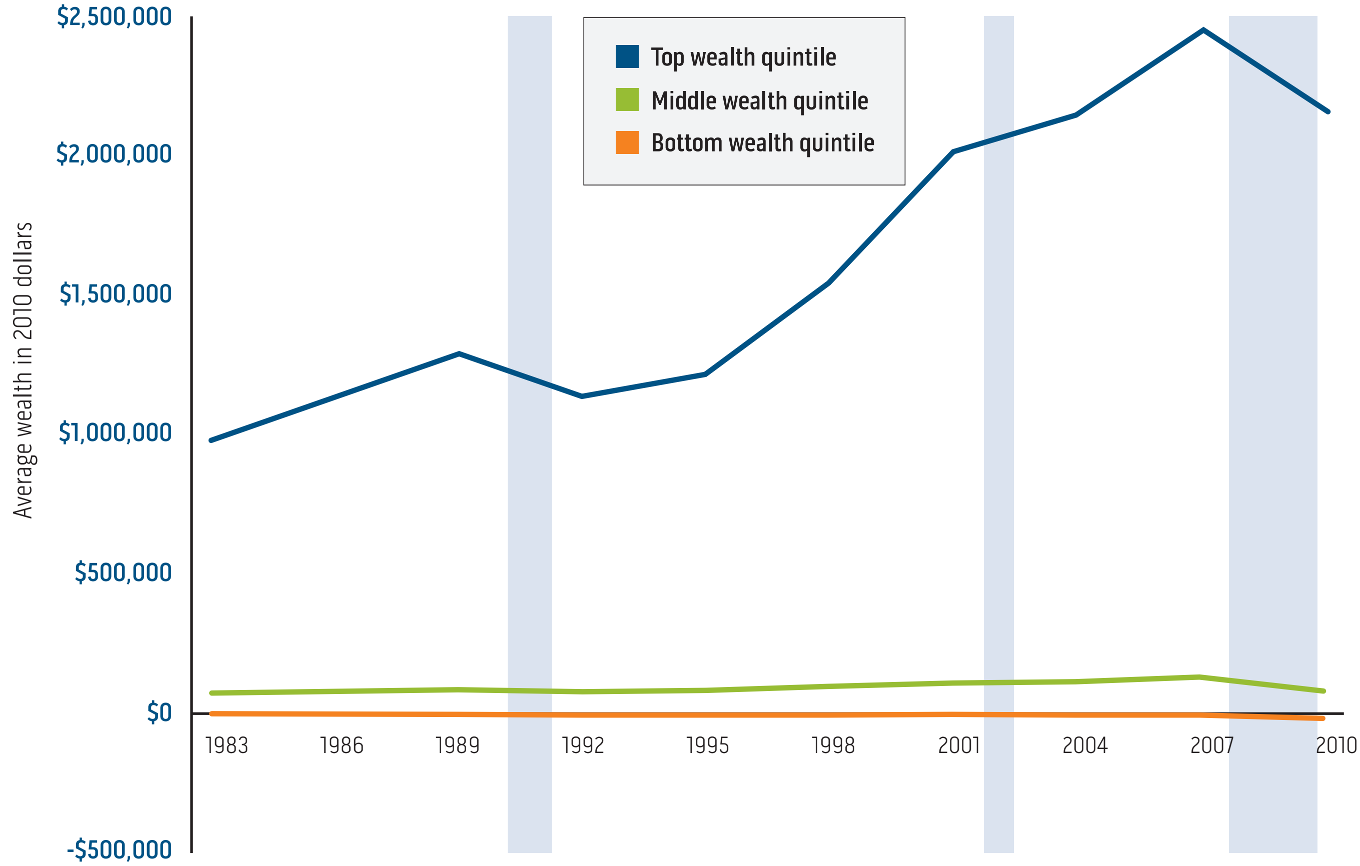
In inflation-adjusted 2010 dollars, as opposed to ratios, the gap is also growing—as would happen in any growing economy if the ratios remained constant, much less moved farther apart. The average wealth of white families was $230,000 higher than the average wealth of black and Hispanic families in 1983 (figure 3). By 2010, the average wealth of white families was over a half-million dollars higher than the average wealth of black and Hispanic families ($632,000 versus $98,000 and $110,000, respectively). If we look at the median family the wealth holdings are lower and the differences are smaller, but the trends are the same.[3]

How Does the Racial Wealth Gap Change Over the Life Cycle?

The racial wealth gap grows sharply with age. Early in wealth-building years (when adults are in their 30s), white families have 3.5 to 4 times the wealth of families of color. Over the life cycle these initial racial differences grow in both absolute and relative terms.

Whites on average are on a higher accumulation curve than blacks or Hispanics. Whites age 32–40 in 1983 had an average family wealth of $184,000 (figure 4). In 2010, near their peak wealth-building years of age 59–67, average white family wealth had shot

Figure 1. Wealth Inequality among U.S. Families Is Increasing



Sources: Authors' tabulations of the 1983, 1989, 1992, 1995, 1998, 2001, 2004, 2007, and 2010 Survey of Consumer Finances (SCF).
Notes: All values are presented in 2010 dollars, and data are weighted using SCF weights. Shaded areas indicate recessions.

up to $1.1 million. In contrast, blacks age 32–40 in 1983 saw their average family wealth rise more slowly, from $54,000 to $161,000 by 2010. Meanwhile, average family wealth for Hispanics increased from $46,000 in 1983 to $226,000 in 2010. In other words, whites in this cohort started with about three and a half times more wealth than blacks in their 30s but had seven times more wealth in their 60s. Compared with Hispanics, whites started with four times more wealth in their 30s but had nearly five times more wealth three decades later.[4]

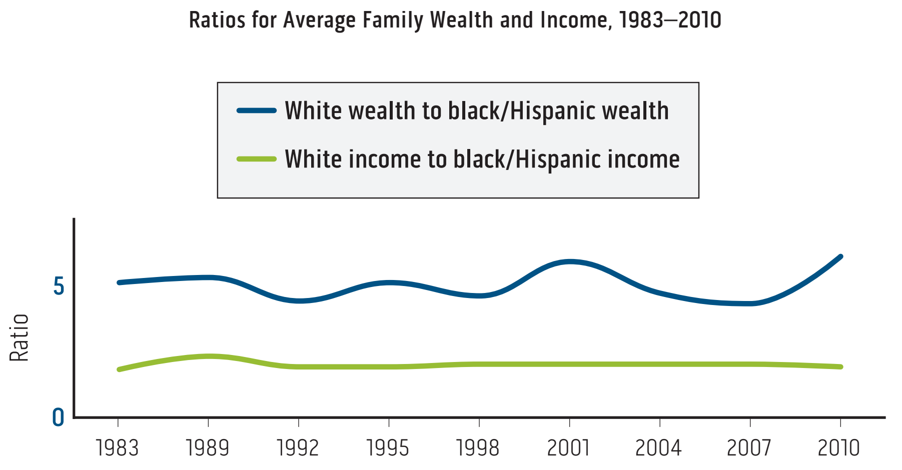
Blacks especially, but also Hispanics, are not on the same compound growth path. Particularly important, these families of color are less likely to own homes and have retirement accounts than whites, so they miss out on the automatic behavioral component of these traditionally powerful wealth-building vehicles. In 2010, fewer than half of black and Hispanic families owned homes, while three-quarters of white families did.

How Did the Great Recession Affect Wealth, and Who Lost the Most?

While the Great Recession didn't cause the wealth disparities between whites and minorities, it did exacerbate them. The 2007–09 recession brought about sharp declines in the wealth of white, black, and Hispanic families alike, but Hispanics experienced the largest decline. Lower home values account for much of Hispanics' wealth loss, while retirement accounts are where blacks were hit hardest.

Between 2007 and 2010, Hispanic families saw their wealth cut by over 40 percent,

Figure 2. The Racial Wealth Gap Is Three Times Greater Than the Racial Income Gap



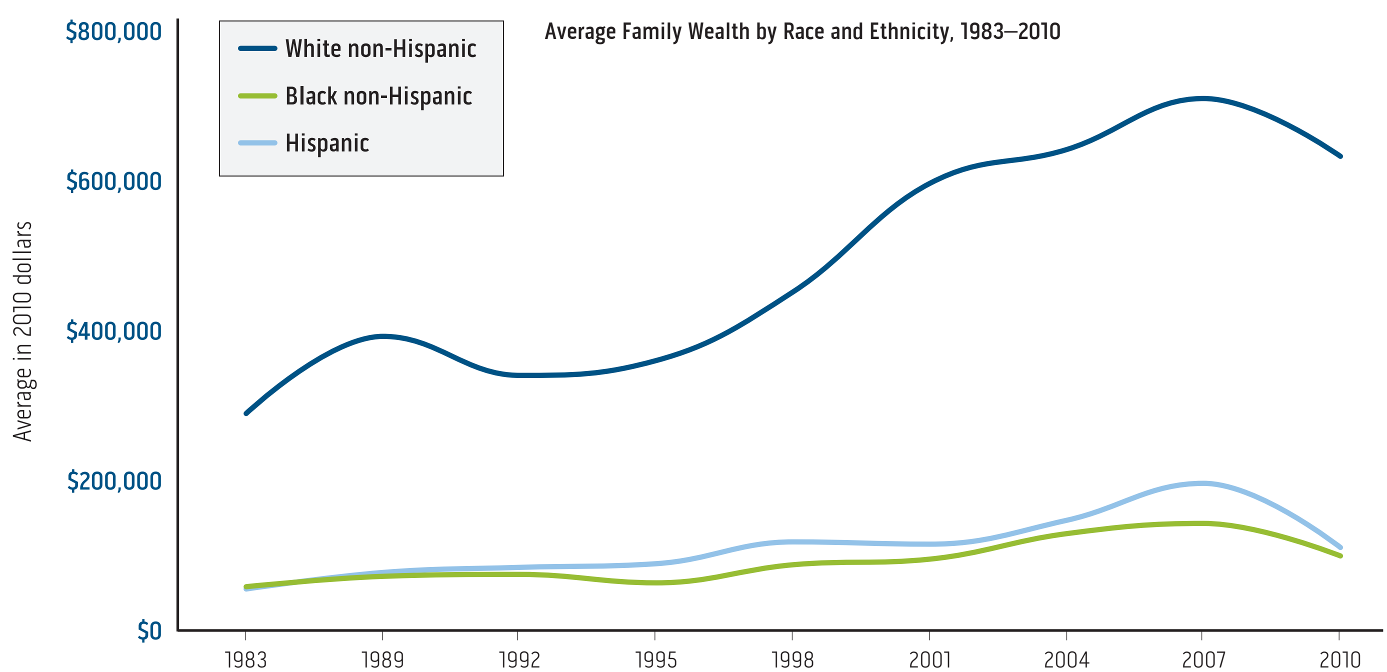
Source: Authors' tabulations of the 1983, 1989, 1992, 1995, 1998, 2001, 2004, 2007, and 2010 Survey of Consumer Finances (SCF).
Notes: Data are weighted using SCF weights.

and black families saw their wealth fall by 31 percent (figure 5). By comparison, the wealth of white families fell by 11 percent.

Like a lot of young families, many Hispanic families bought homes just before the recession. Because they started with higher debt-to-asset values, the sharp decline in housing prices meant an even sharper cut in Hispanics' wealth.[5] As a result, they were also more likely to end up underwater or with negative home equity. Between 2007 and 2010, Hispanics saw their home equity cut in half, compared with about a quarter for black and white families.

In contrast, black families lost the most in retirement assets, while white families experienced a slight increase. On average, blacks saw their retirement assets fall by 35 percent during the Great Recession, compared with a smaller (but still substantial) decline of 18 percent for Hispanic families. This finding is

Figure 3. The Racial Wealth Gap Is Not Improving



Source: Authors' tabulations of the 1983, 1989, 1992, 1995, 1998, 2001, 2004, 2007, and 2010 Survey of Consumer Finances (SCF).
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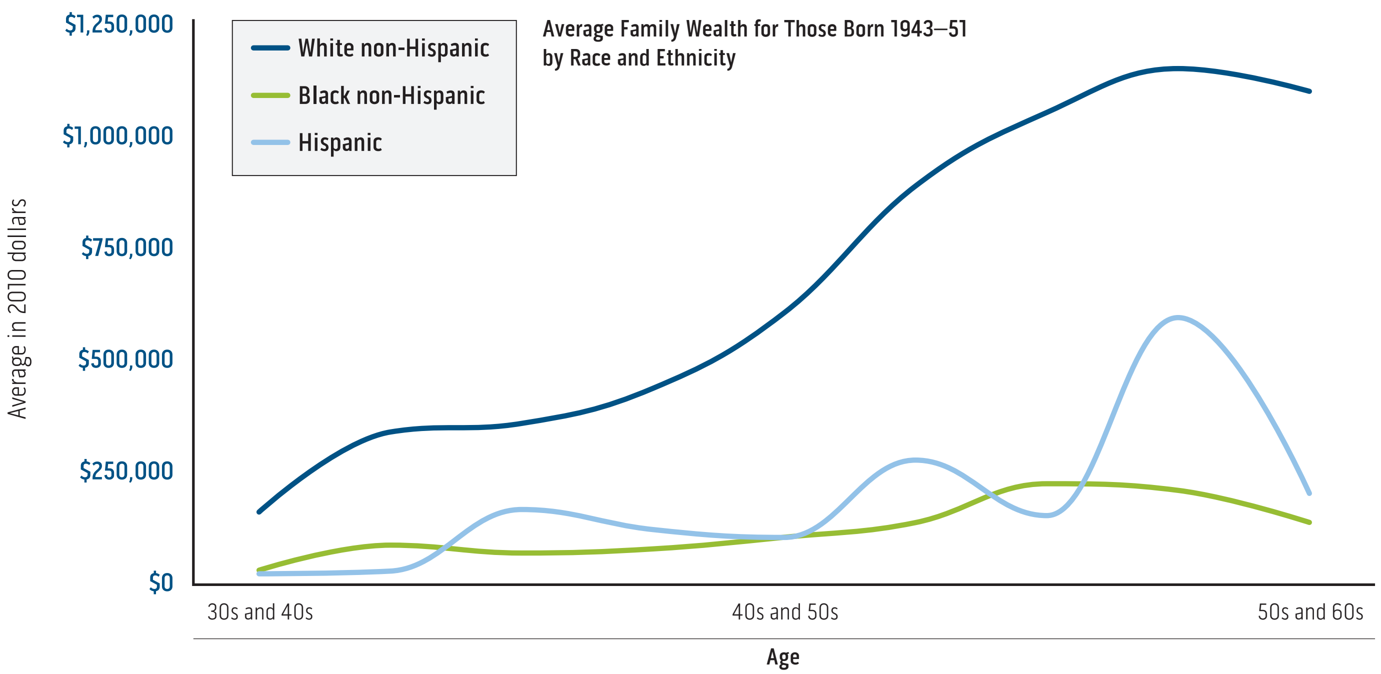
Figure 4. The Racial Wealth Gap Grows with Age



Source: Authors' tabulations of the 1983, 1989, 1992, 1995, 1998, 2001, 2004, 2007, and 2010 Survey of Consumer Finances (SCF).
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consistent with research that suggests lower-income families are more likely to withdraw money from retirement savings after a job loss or other adverse event. The high rates of unemployment and other financial needs that took hold with the Great Recession appear to have led to larger declines in retirement savings for black families.

The stock market has essentially recovered since the recession. So, those families able to hold onto their retirement saving over longer periods (such as those who remain employed or have other assets to which they can turn) come out much better than those who sell when markets are low.

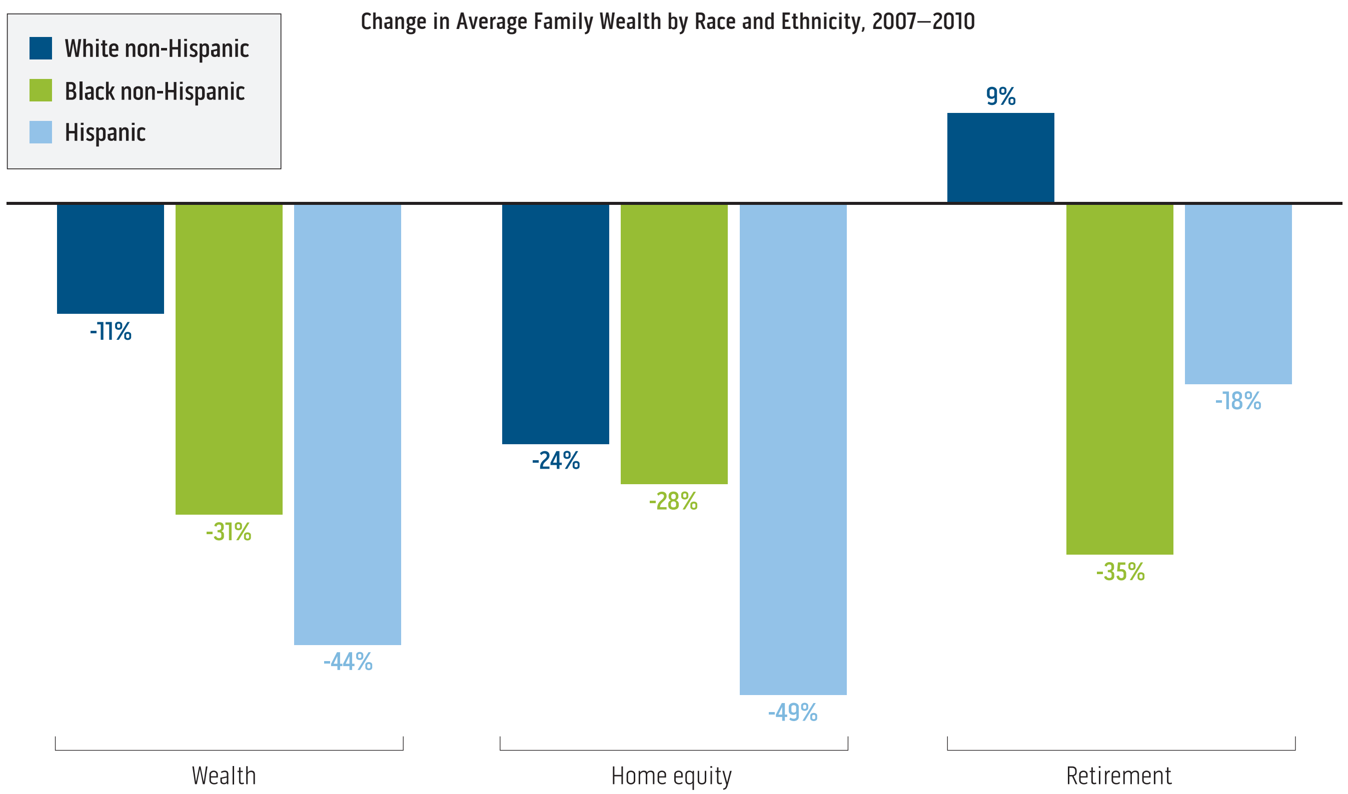
How Do We Fix This?

Families of color were disproportionately affected by the recession. However, the fact that they were not on good wealth-building paths before this financial crisis calls into question whether a whole range of policies (from tax to safety net) have actually been helping minorities get ahead in the modern economy. More fundamentally, it raises the question of whether social welfare policies pay too little attention to wealth building and mobility relative to consumption and income.

Because Hispanics and blacks are disproportionately low income, their wealth building is strongly affected by policies aimed at low-income families. Right now, safety net policies emphasize consumption: the Supplemental Nutrition Assistance Program and Temporary Assistance for Needy Families, for example, try to ensure that families have enough food to eat and other basic necessities. Many safety net programs even discourage saving: families can become ineligible if they have a few thousand dollars in savings. Wealth-building policies, on the other hand, are delivered as tax subsidies for homeownership and retirement. Since families of color are less likely to be able to use these subsidies, they benefit little or not at all.

Most families save by paying off mortgages through homeownership and accumulating wealth in compounding retirement accounts. The automatic component of these assets—a monthly mortgage payment, regular deposits from earnings to savings—facilitate wealth building. Both methods are threatened by some disturbing current trends. The Great Recession led many low-income individuals to fear homeownership even when it became much cheaper on net than renting. Meanwhile mortgage credit has tightened—and

Figure 5. Hispanics Lost the Most Wealth during the Great Recession, While Blacks Fared Worse than Whites



Source: Authors' tabulations of the 2007 and 2010 Survey of Consumer Finances (SCF).
Notes: Data are weighted using SCF weights.

might be further tightened with higher down payment rates—making credit most available in a bubble market and least in a bust market. For low-income families, especially families of color, this can exacerbate wealth inequality. Retirement savings, meanwhile, are threatened as a result of reduced employer contributions to pension plans and early employee withdrawals.

A common misconception is that poor or even low-income families cannot save. Research and evidence from savings programs shows they can. When we examined families living below the poverty level, we found that over a decade more than 40 percent were able to increase their net worth and save enough to escape asset poverty—in other words, they had enough assets to live at the poverty level for three months without income (about $3,000 for an individual and $6,000 for a family of four).

The federal government spends hundreds of billions of dollars each year to support long-term asset development. But these asset-building subsidies primarily benefit high-income families, while low-income families receive next to nothing. Reforming policies like the mortgage interest tax deduction so it benefits all families, and helping families enroll in automatic savings vehicles, will help improve wealth inequality and promote saving opportunities for all Americans. ▪

Notes

1. Wealth is measured as total assets minus total liabilities/debt. Assets are the sum of financial assets (such as bank accounts, stocks, bonds, and 401ks/IRAs) and nonfinancial tangible assets (such as homes and real estate, businesses, and vehicles). Liabilities include both unsecured debt (such as credit card balances) and secured debt (such as mortgages and vehicle loans).

2. At the median the racial disparity is greater: whites have eight times the wealth of black and Hispanic families.

3. The median wealth of white families was $80,000 higher than the median wealth of black and Hispanic families in 1983 ($91,000 versus $11,000 and $10,000, respectively). By 2010, the median wealth of white families was over $100,000 higher than the median wealth of black and Hispanic families ($124,000 versus $16,000 and $15,000, respectively).

4. Population changes stemming from immigration could account for some of the wealth changes for Hispanics over time.

5. For example, if two households have homes worth $100,000, and one owes $70,000 on the mortgage and the other owes $0, a 30 percent fall in home values implies a 100 percent drop in wealth for the first but only a 30 percent drop for the second.

For more information:
www.urban.org/changing-wealth-americans/

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