Research and Policy Brief
May 2010

INSTITUTE ON ASSETS AND SOCIAL POLICY

The racial wealth gap Increases fourfold

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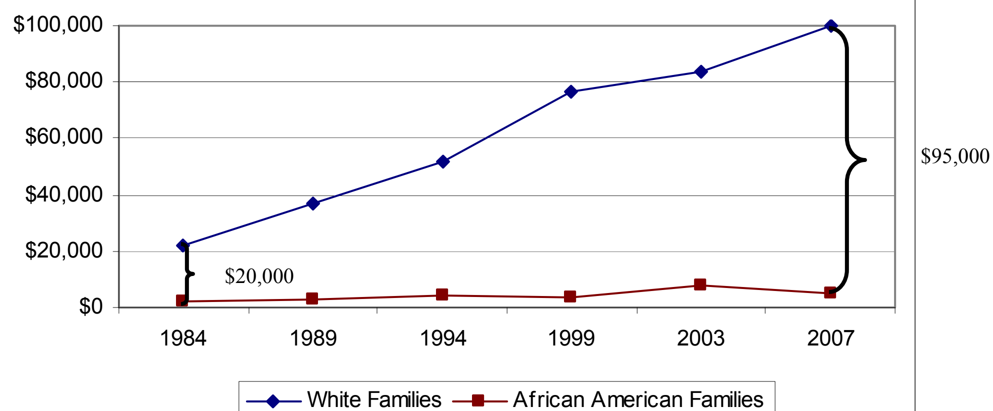
New evidence[1] reveals that the wealth gap between **white and African-American families has more than quadrupled over the course of a generation.** Using economic data collected from the same set of families over 23 years (1984-2007), we find that the real wealth gains and losses of families over that time period demonstrate the stampede toward an escalating racial wealth gap. This report is the first in a series that audits the growth of the racial wealth gap over the past generation.

Wealth, what you own minus what you owe, allows people to start a business, buy a home, send children to college, and ensure an economically secure retirement. Without wealth, families and communities cannot become and remain economically secure. Recognizing the importance of building wealth over a lifetime, our nation has created public policies that provide incentives and subsidies for asset building activities. However, reforms are needed to ensure that such opportunities and rewards are distributed equitably.

Accelerating Racial Wealth Gap

In 23 years, the racial wealth gap increased by $75,000, from $20,000 to $95,000. **Figure 1** underscores the dramatic growth in financial assets (excluding home equity) among white families from a median value of $22,000 to $100,000, while at the same time showing that African-Americans saw very little increase in assets (in real dollars). The growth of the racial wealth gap significantly affects the economic future of American families. For example, the racial wealth gap in 1984 amounted to less than three years tuition payment for one child at a public university. By 2007, the dollar amount of the gap is enough to pay full tuition at a four-year public university for two children, plus tuition at a public medical school. The gap is opportunity denied and assures racial economic inequality for the next generation.

Figure 1: Median Wealth Holdings 1984-2007 (Not including home equity)



Key Findings

Following the financial trajectories of the same cohort of families between 1984 and 2007:

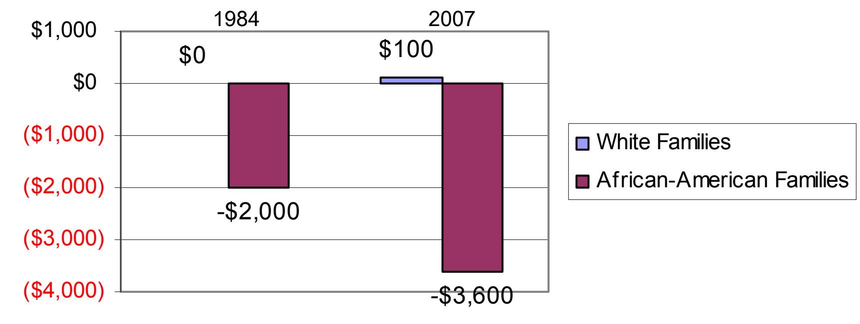
- **The wealth gap between whites and African Americans increased more than 4 times, from $20,000 to $95,000.**
- **Middle-income white households had greater gains in financial assets than high-income African Americans; by 2007, they had accumulated $74,000, whereas the average high-income African American family owned only $18,000.**
- **In 2007, one in ten African-Americans owed at least $3,600, almost doubling their debt burden since 1984.**
- **At least 25% of African-American families had no assets at all to turn to in times of economic hardship.**

This research is supported, by the John D. and Catherine T. MacArthur Foundation and funding from the PSID small grant competition from the Survey Research Center at the University of Michigan

Debt Increases for the Poorest African American Families

Economic stagnation and decline was experienced by both low-wealth whites and low-wealth African Americans. However, African-Americans were found to be more likely to have very low levels of wealth. In fact, for every year of the study at least **one in four African-American families** had no assets all.

Figure 3: Bottom 10 Percent of Wealth Holdings 1984 and 2007



The increase in negative wealth experienced by many households at the lowest positions on the wealth distribution reveals a new dependence on credit to make ends meet. Among those with no financial assets, credit is often an emergency resource.

Summing all assets and debt, one in ten African-Americans owe at least $3,600 (see **Figure 3**), while their debt burden in 1984 at was about half of this in real terms in 1984 ($2000). In sum, many African Americans hold more debt than assets.

Why Do People of Color Rely on Debt

The growth of debt comes after years of deregulation of the lending market. The segmentation of the mortgage lending market highlights a general trend in lending in which low-income people and consumers of color pay more for accessing credit. In credit-starved minority communities across the country, the deregulated market brought a proliferation of high-cost lending, including securitized subprime and predatory loans, payday lending and check cashing stores. With greater numbers of families struggling with ever-growing debt, that far outstrips their income and savings, many low-income and minority households must turn to costly lending products because they have no other options. Minorities and low-income consumers resort more frequently to credit card debt and other forms of high cost debt in the absence of assets. A Consumer Financial Protection Agency that ensures fairness for consumers of all financial products would help equalize and regularize the terms on which cash-strapped families are borrowing to make ends meet.

Closing the Racial Wealth Gap

Efforts to increase asset-building opportunities for low and moderate-income households have expanded as the importance of assets for economic stability and mobility becomes more fully recognized. But, as the data show, these efforts are not yet strong enough or at scale to make a significant difference in people's lives.

The data presented here reveal that income alone does not tell the story of economic security or future opportunities. African-Americans who have worked hard at well-paying jobs to achieve the American Dream are still not able to achieve the wealth of their peers in the workforce, which translates into very different life chances. We can do much more to support wealth building for vulnerable families. Universal policies alone will not address the race gap; wealth building opportunities must be targeted to families of color whose lives are made even more precarious by not having enough assets to make ends meet when economic challenges arise.

A U-Turn is needed. Public policies have and continue to play a major role in creating and sustaining the racial wealth gap, and they must play a role in closing it.

Endnotes

1 Data from the Panel Survey of Income Dynamics provide information on changes in wealth of families headed by an adult (age 25-55) in 1984.

2 Home equity was not included in these analyses as housing is not a financial asset that can be tapped into without replacing it.