

Wealth and Intergroup Inequality

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The speech earlier this week by presidential candidate Barack Obama has brought the issue of race in America back to the forefront of public discourse. In my estimation, the central problems associated with race are the dense inequalities connected to phenotype and ancestry. At the apex of these inequalities are group linked disparities in wealth.

If we are concerned about sharing prosperity or the fruits of a hoped for renewed prosperity, we must be concerned about sharing wealth -- literally sharing ownership of the nation's assets. In general, the American wealth distribution is notoriously more unequal than income distribution. The upper five percent of US wealth holders possess more than 60 percent of the nation's real and financial assets, while the upper one percent owns close to 40 percent of the nation's real and financial assets (see "The Wealth Divide" 2003).

At least as dramatic is the racial/ethnic divide in wealth. Estimates from the Survey of Income and Program Participation indicates that in 2002 white households had a median net worth of approximately \$90,000 while Latino households had a net worth of about \$8000 and black households a net worth of a mere \$6000 (Kochhar 2004). Ninety-five percent of Latino and black households have a net worth below the white household median level. More than two-thirds of black households have zero or negative financial assets compared with one-third of whites.

The absolute gap in wealth between white and black or Latino households was more than \$80,000 in 2002, the equivalent of the cost of attending the nation's most elite colleges and universities for two years. Indeed, if the median black or Latino household saved 100 percent of their annual income (an obvious impossibility) for three years they would barely close the gap.

Consideration of mean net worth instead of the median only magnifies the nature of the problem. White household net worth at the mean approaches \$300,000 while black and Latino mean net worth is about one-third of that amount (Elmelech 2006 p.97). If we fix the mean wealth gap at about \$200,000, black and Latino households would need to save 100 percent of their mean income for close to a decade to eliminate the disparity.

This puts a lie to the notion that improving portfolio management decisions by segments of the society that are poor in wealth would close the net worth gap. Enlightening blacks and Latinos about how to save more will be far from enough to remove these gross disparities in wealth. Andrew Young's so called "Silver Rights"

program for adolescents or various asset building initiatives with incentives to raise savings may have some value at the margin, but they cannot have a significant impact on this central dimension of economic inequality.

As an example of the latter, an asset building initiative, Hillary Clinton briefly advanced the idea of the creation of \$5000 trust funds for children with federal resources. The idea met with a firestorm of criticism, although it seems like a fairly modest redistributive measure if targeted at children in families that are wealth poor. Actually, there is some indication that Clinton accidentally added a zero that made an original proposal of only a \$500 trust fund somewhat stronger. Still, if a \$5000 trust fund earned 5 percent interest per annum in ten years it would generate a value slightly below \$8100. This is not insubstantial, but it would not make much headway in eliminating the racial/ethnic wealth gap.

Moreover, savings behavior does not come close to explaining disparities this large. Arguably no one, regardless of race, creed or color, does much saving in the United States. This is the country with one of the lowest national savings rates by international standards. Some recent estimates have placed the American savings rate at less than one percent! Furthermore, if one controls for income, there is no difference between black and white household savings rates; indeed, if anything, income-adjusted savings rates might be slightly higher for black households (Gittelman and Wolff 2004). Portfolio composition does not explain the disparity either. Income adjusted returns to assets have not been demonstrably lower for blacks (Gittelman and Wolff 2004). A more important consideration might be the sheer racial income distribution; it does matter that blacks save less because, on average, they have lower incomes. But all of these factors taken together leave as much as three-quarters of the racial wealth gap unexplained.

The fundamental source of the disparities is differential access to inheritances and in vivo transfers. Racial differences in intergenerational transfers of assets are key to understanding gross inequality between blacks' and whites' in net worth (Chiteji and Hamilton 2006, Elmelech 2006). Most wealth acquisition today takes place via shifts in assets from the older generation to the younger generation (Blau and Graham 1990), perhaps the most blatant example of the transfer of resources on a non-merit basis. Groups that have less wealth to bestow upon their offspring yield a next generation with less wealth. Why have blacks collectively had less wealth to transfer to subsequent generations? Gordon and Chiteji (2006 p.17n.2; also see Darity and Nicholson 2005) observe:

For African Americans, enslavement restricted owning one's self and any other property; racial land reform never took place as promised after the Civil War; during Jim Crow, Black-owned land was seized violently and records destroyed, and up through the twentieth century Black land loss continued with urbanization, discriminatory public policy and credit policies, and intestate status of many parcels.

The primary source of wealth for most households, particularly those below the upper 5 percent of the wealth distribution, is homeownership. Encouraging homeownership as a route to elimination of the racial/ethnic gap in net worth is particularly complicated at this moment, since buying a home in America increasingly is taking on the characteristics of playing a casino. Consider the following comment by James Surowiecki (2008 p.62) in an excellent article in a recent issue of the *The New Yorker*:

If you earn eighty thousand a year, no one will lend you four hundred thousand dollars to buy stocks, but plenty of people were willing to lend you the money to buy a house. As long as home prices were rising, all this leverage seemed like a good thing: it let people buy homes they couldn't otherwise afford, and maximized their return on investment. But, with home prices sinking -- in the final quarter of 2007, they were down almost nine percent from the year before -- the downside has become clear: as many as fifteen million homeowners now owe more on their mortgages than their homes are worth. Homeownership isn't building wealth for these people; it's locking them into indentured servitude.

So what is to be done?

1. As Gordon and Chiteji have indicated above the genesis of the racial wealth gap may be found in failure to deliver 40 acres and a mule to the ex-slaves. Land redistribution or the monetary equivalent of a land redistribution, could be on the agenda to achieve substantial closure of the gap. The fascination that Henry George and his disciples have maintained for land ownership (rather than home ownership per se) may have a sound basis. It could provide the core for estimation of the appropriate magnitude of a program of reparations for black Americans predicated not only on slavery but also on the damages engendered by Jim Crow and ongoing discrimination. At minimum, Congressman Conyers' proposal to establish a commission to examine the long term effects of slavery and Jim Crow on contemporary American life should be enacted.

2. Strategies for redistributing ownership of American businesses can be given consideration. A careful examination of the Malaysian precedent for redistributing wealth toward the native Malays should be undertaken to identify both strengths and weaknesses to craft a proposal appropriate for the USA context.

3. An aggressive program of tax relief and a negative income tax for the wealth poor could be undertaken, possibly channeling the redistributed income directly to asset accumulation.

4. Despite the huge race-based economic disparities that exist in the United States there has been increasing concern about the use of race-based criteria for targeting strategies of remedy for discrimination, like affirmative action. A class-based strategy might be a viable alternative, particularly if the criterion for eligibility is

predicated on wealth rather than income. For example, the target population might be all young people from households with a net worth position below the white household median or, more conservatively, families with a net worth below two-thirds or one-half of the white household median. Or an arbitrary but intuitively appealing threshold like \$50,000 in net worth might be used as the cutoff. Regardless, class-based affirmative action where a significant wealth threshold is utilized as the eligibility criterion would include appropriate participation from black and Latino youths or households.

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