

Explaining the Causes of the Black-White Wealth Gap in the United States

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This paper examines the issue of the Black-White wealth gap in the United States. The paper presents pertinent data illustrating that a large gap exists in wealth accumulation between Black and Whites in the United States. The paper presents a number of implications for the Black American population as a result of this large wealth gap. Finally, the paper presents the factors or causes of the large Black-White wealth gap in the United States.

Keywords: Race, United States, income, Inequality, Wealth Gap

Introduction

“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.”¹ Writing about the importance of wealth, Altonji et al. (2000) point out that:

“Wealth is important in any society. It influences access to capital for new businesses, is a source of political and social influence, and provides insurance against fluctuations in labor market income. It influences the quality of housing, neighborhoods, and schools a family has access to as well as the ability to finance higher education” (p. 38).

Racially and ethnically the United States is the most diverse country in the world. Individuals from all racial groups in the world can be found in the United States. Within each race in the country, there are also dozens of ethnic groups. This racial diversity, in addition to its massive geographic size (3.6 million square miles), with very fertile land for agriculture has made the U.S. the wealthiest or richest country in the world. In 2009, for example, the buying power of Americans was \$10.72 trillion (Humphreys, 2009: p. 3). In 2007, the net worth of all Americans was \$57.5 trillion (“Flow of Funds Accounts of the United States,” 2008), 87.6% of the Gross World Products (GWP) of \$65.61 trillion in 2007. As of 2008, the Gross Domestic Products of the United States was \$14.44 trillion (303.8 million people in 2008). No other single country had a GDP of more than \$7.992 trillion in that same year (China, with 1.33 billion people in 2008).

In the United States, apart from Native Americans, people of Black African descent and people of European descent are the oldest groups, inhabiting the land together for almost 400 years (since 1619). There are some interesting observations pertaining to wealth of these two racial groups. One such observation is that the longer that an ethnic group has been in the U.S. the wealthier they are likely to become. Another observation is that within the

White or European American population in the country, the higher the total number or proportion of an ethnic group in the United States, the more likely that the home country or region in Europe is economically successful. For Black Americans, however, relative to European Americans, those observations do not hold true. In fact, the four centuries long stay of people of Black African descent in the United States and the New World has led to relative poverty of Black people worldwide, while the four centuries long stay of European Americans has led to incredible wealth accumulation and concentration for people of European descent all over the world. The chief reason for this unusual phenomenon is the forced enslavement of people of African descent by people of European descent in the U.S. and the New World for hundreds of years and the forced colonization of Africa by Europeans for up to a century.

Because of this unfortunate history of people of Black African descent discussed above, European Americans and Asian Americans have accumulated and inherited more wealth than Black Americans. Since the 1970s, Black Americans have made substantial investments in their college or university education, which in turn led them to begin to accumulate some wealth. By 2009, there were 3.238 million Black Americans (or in combination with another race)² with a Bachelors degree; 1.246 million with a Masters degree; 171,000 with a Professional degree; and 133,000 with a doctoral degree.³ However, these gains in college degree attainment and increased incomes have not resulted in the equal wealth accumulation with European Americans.

This paper examines the continued wealth gap between Blacks and Whites in the United States. The paper begins with a diagnosis by presenting various statistics showing a wealth gap between Blacks and Whites in the past few decades. The paper then presents some implications or consequences of this wealth gap between Blacks and Whites in the United States. Finally, the paper presents factors or causes of the Black-White wealth gap

¹ Shapiro, T. M., Meschede, T., & Sullivan, L. (2010). May, “The racial wealth gap increases fourfold,” Research and Policy Brief. Institute on Assets and Social Policy. The Heller School for Social Policy and Management, Brandeis University. <http://iasp.brandeis.edu>.

²This racial categorization includes an individual who is Black or an individual who is Black and mixed with another race, such as President Barack Obama.

³“Educational Attainment in the United States: 2009,” 2010, April 2010. U.S Census Bureau. Retrieved on May 19, 2010 from: <http://www.census.gov/population/www/socdemo/education/cps2009.html>.

in the United States. Let us now begin by examining statistics illustrating the Black-White wealth gap in the United States.

Wealth Gap Data between Black and White Americans

It is useful to first explain the difference between income and wealth. According to Oliver and Shapiro (2006):

“Wealth is the total extent, at a given moment, of an individual’s accumulated assets and access to resources, and it refers to the net value of assets (e.g. ownership of stocks, money in the bank, real estate, business ownership, etc.) less debt held, at one time. Wealth is anything of economic bought, sold, stocked for future disposition, or invested to bring an economic return. *Income* refers to a flow of dollars (salaries, wages, and payments periodically received as returns from an occupation, investment, or government transfer, etc.) over a set period, typically one year” (pp. 30-31).

There is a significant number of publications attempting to explain various aspects of the wealth gap between Blacks and Whites in the United States (Altonji et al., 2000; Barsky et al., 2002; Cagetti & De Nardi, 2008; Conley, 1999; DeVaney et al., 2007; Gittleman & Wolff, 2000; Gottschalck, 2008; Gutter & Fontes, 2006; *JBHE*, 2001, 2002, 2010; Menchik & Jianakoplos, 1997). Menchik and Jianakoplos (1997) point to studies published in 1971, 1975, 1979, 1990 and 1992 claiming that “...blacks hold on average between 10% and 25% of the wealth held by whites...” (p. 428). Barsky et al. (2002) claim that: “...depending on the data source used, white households in the United States hold somewhere between five and ten times the net worth of black households” (p. 663). According to *JBHE* (2002), a 1998 study claims that: “...42 percent of all American households had a net worth of more than \$100,000. Only 18 percent of black households had wealth of more than \$100,000. In contrast, 25 percent of all American households had almost no wealth (a net worth below \$25,000). But 45 percent of all black families had a net worth of below \$10,000” (p. 23). It is reported that: “...in 1995 the median net worth of black households was \$7,073. This was only one seventh of the median wealth of white households, which stood at slightly more than \$49,000” (*JBHE*, 2001: p. 32). It is noted that “In 2007 married black families had median wealth of \$46,900. For married white families, the median wealth was close to \$200,000” (*JBHE*, 2010: pp. 40-41). Gittleman and Wolff (2000) cite a 1998 study that: “...estimates the ratio of the mean net worth for non-Hispanic African Americans to non-Hispanic whites at 0.17 in 1995, with this fraction being even lower when measured in terms of medians (0.12). To put these numbers in perspective, the ratio of both the mean and median income of African American households to those for white ones was 0.64 in 1997...” (p. 1).

According to Gutter and Fontes (2006), a 2003 study claims that: “...the median wealth for Whites was about 6.4 times that of Blacks; similarly, the mean wealth for Whites was between 5 and 6 times that of Blacks” (p. 64). According to Altonji et al. (2000): “...data from the 1976 and 1978 waves of the National Longitudinal Surveys of young men and women and find that, on average, young black families hold only 18 percent of the wealth of young white families, while the corresponding percentage for income is 64.9” (p. 38). According to Gottschalck (2008), the median net worth and median net worth excluding home equity of Black households in the U.S. in 2002 were

\$5,446 and \$1,102 respectively and \$87,056 and \$19,079 respectively for non-Hispanic Whites (p. 13).

Shapiro et al. (2010) note that: “In 23 years, [1984 to 2007] the racial wealth gap [between Blacks and Whites in the U.S.] increased by \$75,000 from \$20,000 to \$95,000....Most notable is the large gap in wealth among the highest income whites and blacks. By 2007, the average middle-income white household accumulated \$74,000, whereas average high-income African Americans owned only \$18,000” (pp. 1-2). Shapiro et al. (2010) also add that: “At least 25% of African American families had no assets at all to turn to in terms of economic hardship” (p. 1).

Even when Blacks have the same education and occupation as Whites, research shows that they still have less wealth. According to Oliver and Shapiro (2006): “Examining blacks and whites who share similar socioeconomic characteristics brings to light persistent and vast wealth discrepancies. Take education as one prime example: the most equality we found was among the college educated, but even here at the pinnacle of achievement whites control four times as much wealth as blacks with the same degrees” (p. 8). Oliver and Shapiro (2006) continue by attempting to explain this vast difference between the wealth of Whites and Blacks by noting that it:

“... is not simple that blacks have inferior remunerable human capital endowments—substandard education, job, and skills, for example—or do not display the characteristics most associated with higher income and wealth. We are able to demonstrate that even when blacks and whites display similar characteristics—for example, are on par educationally and occupationally—a potent difference of \$43,143 in home equity and financial assets still remains. Likewise, giving the average black household the same attributes as the average white household leaves a \$25,794 racial gap in financial assets alone.... We show that skewed access to mortgage and housing markets and the racial valuing of neighborhoods on the basis of segregated markets result in enormous racial wealth disparity. Banks turn down qualified blacks much more often for home loans than they do similarly qualified whites. Blacks who do qualify, moreover, pay higher interest rates on home mortgages than whites” (p. 8).

To substantiate some of the claims made by Oliver and Shapiro, for example, according to the U.S. Census Bureau, in 2000, the median value of homes in the city of Camden, New Jersey (with a Black majority of 53.3% of 79,904 people) was \$40,700, but the median value of homes in the U.S. during that same year was \$119,600⁴ and \$170,800 for the state of New Jersey.⁵ Blacks in the U.S. are also charged more for various goods and services, such as cars and insurance. Culture might play a role too since high earning Blacks might assist immediate and extended members of their family, which reduces their ability to accumulate wealth. Also, because Blacks tend to be

⁴Camden city, New Jersey, Fact Sheet. U.S. Census Bureau. Retrieved on May 3, 2011 from:

http://factfinder.census.gov/servlet/SAFFFacts?_event=&geo_id=16000US3410000&_geoContext=01000US%7C04000US34%7C16000US3410000&_street=&_county=camden&_cityTown=camden&_state=04000US34&_zip=&_lang=en&_sse=on&ActiveGeoDiv=&_useEV=&_pctxt=fph&pgsl=160&_submenuId=factsheet_1&ds_name=ACS_2009_5YR_SAFF&_ci_nbr=null&qr_name=null®=null%3Anull&_keyword=&_industry=

⁵New Jersey, Fact Sheet. U.S. Census Bureau. Retrieved on May 3, 2011 from: http://factfinder.census.gov/servlet/SAFFFacts?_event=Search&geo_id=16000US3410000&_geoContext=01000US%7C04000US34%7C16000US3410000&_street=&_county=&_cityTown=&_state=04000US34&_zip=&_lang=en&_sse=on&ActiveGeoDiv=geoSelect&_useEV=&_pctxt=fph&pgsl=160&_submenuId=factsheet_1&ds_name=DEC_2000_SAFF&_ci_nbr=null&qr_name=null®=null%3Anull&_keyword=&_industry=

more religious and attend church services more than Whites, a significant proportion of them tend to donate up to ten percent of their annual income to their churches.

These various statistics show a major wealth gap between Blacks and Whites in the United States. What are some of the implications of this massive wealth gap between Blacks and Whites in the United States?

Some Implications of the Black-White Wealth Gap in the United States

There are many implications of the Black-White wealth gap in the United States. The lack of wealth for Black families contributes to fewer Blacks with health insurance, fewer numbers of college aged blacks enrolled in colleges and universities, high debt burden for Black families since they are forced to go deeper into debt to pay for college or health care. Also, because Black Americans tend to reside in mostly majority Black communities and home/property taxes are used to fund K-12 education in the United States, Black children also receive inadequate education. It also slows the growth of the Black population because potential Black parents may hold off from having children since they lack wealth. It also causes high crime rates in Black communities due to severe poverty. The Black-White wealth gap also slows economic progress of Black communities. Let us examine some specific examples.

In the United States, the ages 18 to 21 are when individuals are more likely to be enrolled in colleges or universities. According to the U.S. Census Bureau, of the 6,762,000 Whites alone or in combination with another race 18 - 19 years old, 50.9% were enrolled in college (undergraduate and graduate) and of the 6,408,000 Whites alone or in combination with another race⁶ 20 - 21 years old, 49.7% were enrolled in college in 2008. For 1,431,000 Blacks alone or in combination with another race⁷ 18 - 19 years old, 36% were enrolled in college and of 1,334,000 Blacks alone or in combination with another race 20 - 21 years old, 36.7% were enrolled in college in the U.S. in 2008.⁸

According to a table (Table 5) in a study by Bum and Steele (2010) entitled: "Frequency of High Bachelor's Degree Student Loan Debt by Race, Dependency Status and Parent Income, 2007-08", 36% of Whites had no debt; 19% of Blacks; 33% of Hispanic/Latino; and 40% of Asians had no debt (p. 6). Among individuals who earned doctorates in the United States in 2008, Blacks had the highest level of debt: \$38,586, but \$21,299 for Whites.⁹

Shapiro et al. (2010) point out that in the United States: "In 2007, one in ten African Americans owed at least \$3,600, al-

⁶This particular classification includes individuals who are White (White could include a person of pure European descent, Afghan, Arab, Jewish, Iranian or Turkish) or an individual who is part White and part Black or mixed with another racial group.

⁷his racial categorization includes an individual who is Black or an individual who is Black and mixed with another race, such as President Barack Obama.

⁸"Table 1. Enrollment Status of the Population 3 Years Old and Over, by Sex, Age, Race, Hispanic Origin, and Foreign-Born Parentage: 2008," School Enrollment--Social and Economic Characteristics of Students: October 2008. 2009. U.S. Census Bureau. Retrieved on June 3, 2010 from: <http://www.census.gov/population/www/socdemo/school/cps2008.html>

⁹Fiegner, Mark K. (Project Officer). 2009, December. "Doctorate Recipients from U.S. Universities: Summary Report 2007-2008," Division of Science Resources Statistics. Directorate for Social, Behavioral, and Economic Sciences. National Science Foundation. Arlington, Virginia. Table 24, p.53.

most doubling their debt burden since 1984" (p. 1).

According to West and Sabol (2009), as of June 30, 2008, of the 2,103,500 males held in local jails, state and federal prisons in the United States, Black males (who are no more than 5% of the total population) accounted for 846,000 (40.2%); and Whites accounted for 712,000 (33.8%) (p. 17).

According to DeNavas-walt et al. (2009), there were 46,340,000 individuals in the United States without Health Insurance. Out of 197,159,000 non-Hispanic Whites, 21,322,000 (10.8% of non-Hispanic Whites) were uninsured and of the 38,076,000 Blacks, 7,284,000 (19.1% of Blacks) were uninsured (p. 21).

Of the 37,276,000 people below the poverty line in the United States in 2007, 9,237,000 (24.8% of Blacks) were Black and 25,120,000 (6.7% of Whites) were White.¹⁰ Of the 12,802,000 children below the poverty line in the United States in 2007, 3,838,000 (30% of Blacks) were Black and 8,002,000 (6.2% of Whites) were White.¹¹ What are the causes or factors responsible for the Black-White wealth gap in the United States?

Factors or Causes of the Black-White Wealth Gap in the United States

A significant number of factors or causes have been cited as contributing to the Black-White wealth gap in the United States (Altonji et al., 2000; Barsky et al., 2002; Conley, 1999; Darity Jr., 2005; DeVaney et al., 2007; Gittleman & Wolf, 2000; Gutter & Fontes, 2006; Herring, 2000; Shapiro et al., 2010). In explaining the factors of the Black-White wealth gap in the United States, Shapiro et al. (2010) point out that:

"The racial wealth gap results from historical and contemporary factors but the disturbing four-fold increase in such a short time [1984 to 2007] reflects public policies, such as tax cuts on investment income and inheritances which benefit the wealthiest, and redistribute wealth and opportunities. Tax deductions for home mortgages, retirement accounts, and college savings all disproportionately benefit higher income families. At the same time, evidence from multiple sources demonstrates the powerful role of persistent discrimination in housing, credit, and the labor markets. For example, African-Americans and Hispanics were at least twice as likely to receive high-cost home mortgages as whites with similar incomes. These reckless high-costs loans unnecessarily impeded wealth building in minority communities and triggered the foreclosure crisis that is wiping out the largest source of wealth for minorities" (p. 2).

According to Gittleman and Wolf (2000):

"There is also evidence of the fact that the heads of African-American families are more likely to be unmarried and tend to be less educated than their white counterparts, with a much higher proportion of those who have never completed high school and a much smaller one who have completed college....the fact that the sample of African Americans have substantially lower income levels, tend to be less educated, are more likely to be

¹⁰"Table 695. People Below Poverty Level and Below 125 Percent of Poverty Level by Race and Hispanic Origin: 1980 to 2007," 2010. Statistical Abstract of the United States. U.S. Census Bureau. Retrieved on May 21, 2010 from: http://www.census.gov/compendia/statab/cats/income_expenditures_poverty_wealth.html.

¹¹"Table 696. Children Below Poverty Level by Race and Hispanic Origin: 1980 to 2007," 2010. Statistical Abstract of the United States. U.S. Census Bureau. Retrieved on May 21, 2010 from: http://www.census.gov/compendia/statab/cats/income_expenditures_poverty_wealth.html.

unmarried and are younger on average than their white counterparts explains about 4/5 of the [Black-White wealth] gap” (p. 5).

In explaining the causes of the Black-White wealth gap in the United States, Altonji et al. (2000) write:

“What explains the huge wealth gap?... We focus much of our attention on the most obvious possibility, which is that the wealth gap may arise because whites have higher incomes than blacks and have marriage and fertility patterns that are more favorable to wealth accumulation....Both savings levels and savings rates are positively related to income. Since blacks on average have lower incomes than whites, we would expect blacks to have lower savings. A lower flow of savings translate into less wealth. Similarly, the fact that blacks are less likely to marry, have less stable marriages, and have more children implies that blacks will have less wealth per household than whites” (p. 38).

According to Gutter and Fontes (2006):

“The composition of wealth has played an important role in understanding the racial inequality in wealth...Previous research has indicated that Blacks were more likely to invest in personal residence and less likely to invest in risky assets such as equities that may grow and produce income...Other studies showed that Blacks were less invested in the stock market than Whites...This difference in asset composition has had a considerable impact on net worth...” (p. 64).

Gutter and Fontes (2006) also add that culture, age and gender contribute to the Black-White wealth gap in the United States (pp. 66-67). DeVaney et al. (2007) cited the following factors as contributing to the Black-White wealth gap: Symbolic Interaction Theory, Life Cycle Hypothesis of Savings, Age, Marital Status, Race, Income, Education, Self-employment, Credit Approval History, Financial Institutions, Saving Behavior and Planning Horizon, and Professional Advice (pp. 34-36). According to Darity Jr. (2005), the enslavement of Black Americans is a major contributing factor to the Black-White wealth gap:

“In the U.S.A. context, blacks generally have had less accumulated wealth to transfer to their next generation, thereby perpetuating the black-white gap in net worth. Until emancipation, 90 percent of African Americans were enslaved; therefore, they were a source of wealth for others but generally deprived of the capacity to acquire wealth themselves...The net effect has been to prevent the intergenerational transmission of wealth that occurs at much higher rates among other ethnic/racial groups in the U.S.A. Blacks transfer less because they have a much smaller stock of wealth to bestow upon their offspring. Blacks have a much smaller stock of wealth because of a sustained historical pattern of deprivation of the capacity to accumulate property, particularly land” (p. 146).

Another important factor that has contributed to the Black-White wealth gap in the United States is that the Black American population is not adequately represented in the U.S. Congress, especially in the U.S. Senate where there is no Black member as of June 2011. However, it is in the U.S. Congress where laws are passed that benefit ethnic and racial groups and humans tend to attempt to help their own groups first before they consider helping other groups. So excluding Black representation in the U.S. Congress, especially in the U.S. Senate contributes to the Black-White wealth gap in the United States.

Also, compared with other racial, ethnic or cultural groups, Black Americans not only have higher unemployment rates, but

substantial proportions of them also have jobs with very little prestige, which leads to lower wages or salaries. For example, as of 2008, 6,509,000 (5.2%) of Whites were unemployed in the United States; 1,788,000 (10.1%) for Blacks; 285,000 (4%) for Asians; and 1,678,000 (7.6%) for Hispanics.¹² Nam and Boyd (2004) present tables (Appendices A and C) in their study showing the rank scores in prestige or status in society for hundreds of jobs or professions and of racial, ethnic or cultural groups, with a score of 100 being the highest. For example, Dentists, Physicians and Surgeons have a perfect score of 100 (the highest level of prestige or status), but Bus drivers have a score of 31, sewing machine operators have a score of 11 and a score of 1 for Dishwashers. When computed by race, ethnicity, gender or cultural groups, the mean score for Whites was 52.1; 42.4 for Blacks; 58.1 for Chinese Americans; 64.7 for Asian Indian-Hindu Americans; 52.8 for Korean Americans; and 41.4 for American Indians (pp. 339-358). There are also structural or institutional factors contributing to the Black-White wealth gap and there is an additional issue of intersectionality.

Structural and Institutional Racism, and Intersectionality Theory

It is important to note that while some of the examples above point to Slavery and Jim Crow as important contributing factors of the Black-White wealth gap in the United States, the post-Civil Rights era has not been free from structural and institutional racism, which too continue to contribute to this gap (Gusa, 2010: pp. 468-471; Pittman, 2010; Reynolds et al., 2010; Thompson, 2010). In addition, one needs to examine this Black-White wealth gap in the United States through the Intersectionality Theory (Cole, 2008; Collins, 1990; Creenshaw, 1991; Desmond & Emirbayer, 2009; Gillman, 2007: pp. 119-120).

Thompson (2010) explains Structural racism from the point of view of the education sector that:

“Education as a complex public ecosystem must exist, compete, and evolve with other ecosystems including those of a political and economic nature.... The housing and financial ecosystems that support patterns of geographic segregation and the exclusion and inequity of financial resources suggest that there is a collaborative and interdependent relationship between these ecosystems and the education ecosystem that supports structural racism” (Quoted in the “Impact of Racism” Section).

Thompson (2010) concludes by pointing out: “... that public education requires an investigation of structures that facilitate, maintain, hinder, and/or prevent the demonstration of student equity in public educational institutions” (Quoted in the “Introduction” Section).

Pertaining to Institutional racism, Reynolds et al. (2010) point out that: “Institutional racism is an institutionalized version of the individual act of racism in which institutional practices and policies are based in the belief of racial superiority of one group over another” (p. 136). According to Thompson (2010), “Institutional racism involves those actions taken by schools and school districts that cause negative outcomes for members of certain groups and ensures the continuation of the privilege of

¹²Table 576. Civilian Population-Employment Status by Sex, Race, and Ethnicity; 1970 to 2008,” 2010. Statistical Abstract of the United States. U.S. Census Bureau. Retrieved on June 8, 2010 from: <http://www.census.gov/compendia/statab/2010/tables/10s0576.pdf>.

other groups” (Quoted in the “Impact of Racism” Section”). In higher education, for example, Black faculty members are less likely to be awarded tenure. For example, in the fall of 2007, there were 702,491 full-time faculty at Title IV degree granting institutions in the U.S., with 290,581 (41.4%) with tenure; 240,911 (44.6%) for 539,646 non-Hispanic Whites with tenure; and 13,388 (35.2%) of 37,862 (5.4% of 702,491 faculty) non-Hispanic Blacks with tenure (Knapp et al., 2008: p. 8).

Pertaining to the Intersectionality Theory, Cole (2008) points out that, “Intersectionality, an analytic approach that simultaneously considers the effects of multiple categories of social group membership (e.g., race, class and gender) takes place at multiple levels” (p. 222). Pastrana (2010) adds that this theory: “... exists when multiple forms of oppression affect people, whether as individuals or as members of a group that experiences oppression (p. 55). Desmond and Emirbayer (2009) also explain Intersectionality Theory: “... society resembled an intricate system of crisscrossing roads—each one representing a different social identity (e.g., race, gender, class, religion, age); one’s unique social position (or structural location) could be identified by listing all the attributes of one’s social identity and pinpointing the nexus (or intersection) at which all those attributes coalesced” (p.3 49; also see Kaba, 2007: pp. 10-22).

Conclusion

This paper has presented various statistics showing a relatively large wealth gap between Blacks and Whites in the United States. By 2007, the wealth gap between Blacks and Whites in the United States had reached \$95,000. There are many implications as a result of this large Black-White wealth gap in the United States. Among the implications mentioned are lack of adequate K-12 education funding in majority Black communities, high poverty rates for Blacks, high prison rates for Black males, high debt rates for Blacks and high number of uninsured Blacks in the United States. Finally, the paper presents a number of factors or causes of the Black-White wealth gap in the United States. Among the factors presented are slavery and Jim Crow, structural and institutional racism, tax policies favoring the rich (most of whom are White), age, education, investment strategy, and income.

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