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40 Acres and a Mule

The Black-White Wealth Gap in America

In 1965, the last of a series of laws that capped the civil rights movement was passed in the United States. No one expected socioeconomic conditions for African Americans to improve straightaway as a result of "equal opportunity." However, a generation later, it might be more reasonable to expect substantial progress toward racial equity to have been made. Still today, blacks are half as likely to graduate from college as whites, twice as likely to be unemployed, and earn about 55 percent of what whites make. As bad as these statistics sound, they represent improvements since the 1960s; what is more, they obscure the real nature of racial inequality in the United States today: property and class.

In fact, if there were one statistic that captured the persistence of racial inequality in the post-civil rights United States, it would be net worth — also known as wealth, equity, or assets. If you want to know your net worth, all you have to do is add up everything you own and subtract 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 around ten times that of its non-white counterpart. Latinos — a very diverse group — overall fare slightly better than African Americans but still fall far short of whites on this indicator. To make matters worse, this "equity inequity" has grown in the decades

since the heralded civil rights triumphs of the 1960s.

The wealth gap cannot be explained by income differences alone. That is, even when we compare black and white families at the same income levels, asset gaps remain large. 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 holds \$10,000 of equity. Likewise, among the often-heralded new black middle class, the situation is not much better. The typical white family that earns \$40,000 per year enjoys a nest egg of around \$80,000. Its African American counterpart has less than half that amount.

CONSEQUENCES OF ASSET INEQUITY

The consequences of this racial wealth gap are not benign; rather, wealth differences account for many of the racial differences in socioeconomic achievement that have persisted in this era since the Civil Rights Movement. Just comparing blacks and whites, blacks are less likely to graduate from college, earn less, and are more likely to rely on welfare. However, when we compare African Americans and whites who are coming from similar socioeconomic backgrounds in terms of income and wealth, we find that African American children are *more* likely to graduate from high school than whites are and are just as likely to complete college. Likewise, we find that the wage gap between blacks and whites disappears and that African Americans are just as likely as Anglos to be working full-time. Among the poor, it is a lack of assets that explains the higher propensities of blacks to rely on welfare. In short, the economic problems of African Americans rest in the realm of property relations, not in the labor market.

Stacey Jones, an African American woman with a graduate degree and a solidly middle-class job, typifies the bind in which many minority parents find themselves. "I find it hard to locate a decent school in Atlanta for my children without resorting to parochial education because I am, in effect, priced out of home-buying in good school districts." She explains, "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." This is the dilemma of the black middle class, a growing group that is often touted as a badge of racial progress. 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 children to the top colleges because one lacks the asset cushion to facilitate change. Income provides for day-to-day, week-to-week expenses. In the contemporary United States, wealth is the stuff that upward mobility is made of.

For the minority poor, the situation is even more precarious. The \$10,000 in equity that impoverished white families enjoy would certainly come 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 and a weak U.S. welfare state, minorities who are hit with such a blow — and they are not uncommon — would much more quickly slip into the sand pit of alternative living arrangements, family break-ups, and, of course, welfare dependency.

Aside from the purely financial benefits that wealth provides families and children, assets may also have other, less tangible effects. These are best illustrated by the efforts of the philanthropist Eugene Lang. In 1980, he returned to the Bronx neighborhood where he had grown up to give a speech to sixth-graders. Lang was awestruck by the urban blight that had infected his old stomping ground. In the face of such devastation, he tore up his speech on the importance of education and hard work. Instead, he promised each of those sixth-graders that if they completed high school, he would personally pay their college tuition. He did not change their weekly income or their neighborhood conditions; what he essentially did was provide them an asset in the form of a promissory note (as well as some after-school tutoring). The result was that in a neighborhood where a majority of students dropped out of high school and almost nobody attended college, a full fifty-four of those sixty-one stu-

dents finished high school, and more than half went on to pursue higher education.

The result of viewing racial inequality through the lens of assets is that equal opportunity and equal conditions cannot be viewed as separate or as alternative. They are one and the same when viewed across generations. Namely, whether or not my parents enjoy the American dream of the house, the car, and the private pension is one of the best predictors of whether or not I will have a chance to achieve the same. This last point hints at the origin of the wealth gap. Simply put, equity inequity is, in part, the result of the head start that whites have enjoyed in accumulating and passing on assets. In short, it takes money to make money, as the old adage goes. Whites not only earn more now, they also have always earned more than African Americans — a lot more. Wealth differences, in turn, feed upon these long-term income differences. Some economists estimate that up to 80 percent of lifetime wealth accumulation results from gifts in one form or another from past generations of relatives (more conservative estimates put the figure at around 50 percent). 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 spin out of control.

SOME HISTORY

However, as if lower wages and initial wealth levels were not enough, there have long been institutional restraints on black property accumulation. After the emancipation of slaves, blacks were promised "40 acres and a mule" by the Freedmen's Bureau, a government agency set up to integrate the former slaves into the world of wage labor. However, of the total number of confiscated

plantations, the lion's share 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. While legally and politically different from slavery, the end result was the same. For blacks who tried to escape sharecropping, formidable obstacles existed 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 claims to title were not legally enforceable in some areas.

During the twentieth century, barriers to black property accumulation remained formidable. For instance, the Home Owners' Loan Corporation (HOLC) of the United States government helped many white homeowners avoid default during the Great Depression; however, the same cannot be said for black homeowners. In fact, it was this agency that instituted the technique of "redlining," in which the highest-risk neighborhoods would be assigned a red (no-loan) rating. Black neighborhoods invariably received this designation, a practice that private banks adopted, too. Meanwhile, the U.S. public pension system, Social Security (originally Old Age Insurance), excluded most black workers because it exempted the agricultural and service sectors. The result was that a greater proportion of black assets had to be spent on supporting elderly family members, and less could be passed on to the next generations.

After the Great Depression, the situation was no better. The Federal Housing Authority (FHA), established in 1937, in combination with the Veterans Administration (VA)

home-lending program that was part of the Serviceman's Readjustment Act of 1944, made homeownership possible for millions of Americans after World War II by underwriting low-interest, long-term loans for first-time home buyers. But African Americans were systematically shut out of participation in these programs because loans were channeled to suburbs and away from the central cities, where blacks predominantly resided.

Since the 1960s, occasional efforts have been made to promote minority-asset accumulation, but they have not amounted to much. For instance, in the wake of the urban unrest of the late 1960s, there was much talk of fostering "black capitalism." Black capitalism boils down to educational programs to bolster the business skills and entrepreneurial spirit in the minority community. Black capitalism never took off, however, and was replaced by "community development" strategies to foster minority property accumulation during the 1970s. In this approach, a nonprofit group called a community development corporation (CDC) acts to attract capital to an economically depressed, predominantly minority, inner-city neighborhood. Today's equivalents are the community development banks that form part of the "enterprise" or "empowerment" zones proposed by Jack Kemp and implemented on a limited basis by George Bush and Bill Clinton.

A more radical policy alternative to fostering black capitalism or community development calls for reparations for black Americans. Espoused by black separatist organizations in the 1960s, the argument for reparations became particularly refined during the 1970s. One researcher used 1790-1860 slave prices as indicators for the value of slave capital. He then converted the prices into an income stream upon which he applied compound interest, calculated since the slavery era. The figure he came up with

matched what the Republic of New Africa (RNA), a prominent separatist group, was asking for.

EFFECTS OF "WHITE FLIGHT"

Recently, President Clinton made it illegal for banks to redline. The bad news is that 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 do not accrue value at the same rate as those in predominantly 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 value stems only from the price that our culture is willing to pay for it in the marketplace. In this vein, when a neighborhood's housing values precipitously decline as the proportion of black residents rises, the price changes provide a record of the social value of "blackness" on the part of society.

The devaluation of black neighborhoods is partially a result of white fears of a decline in property values and the "white flight" that ensues. In other words, there is a causal loop: As long as whites are a significant 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 cycle. Aside from any personal ideology, 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 them to lose money on their homes.

In this way, both blacks and whites are trapped into reproducing current residential patterns. As a result, even if African Americans

were allowed equal access to the home-buying 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 because whites could flee, depressing values for those who remained. 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 fly in the face of the notion of individual choice that is so central to American ideology; furthermore, from an economic point of view it is not in the interest of whites, whose housing is generally worth more precisely because it is not in a black neighborhood. In this way, race and class can reinforce each other. Another unlikely option is to limit the proportion of blacks in any given neighborhood to 15 percent, thereby eliminating the fear of racial tipping. However, this encroaches on black property rights.

POLICY OPTIONS

A third solution is to provide "integration insurance." This form of insurance would protect property owners from any rundown in prices that resulted 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; ideally the insurance policy would never need to be cashed in. The difficulty lies in the details, of course, especially the task of factoring out changes in prices that may be resulting from other forces.

Other policy options to promote wealth equity include a national wealth tax: At the end of each calendar or fiscal year, each individual would use a checklist to assess his assets and liabilities and would be required to pay the government a certain percentage of that net worth

if it exceeded a certain deduction. The resulting funds would be redistributed to the asset-poor.

Another idea would be to loosen the asset restrictions currently built into the welfare system. If welfare recipients were able to save without being penalized for their asset accumulation, public assistance might truly become a safety net instead of a way of life. Likewise, by selling public housing to its residents (who are predominantly black) in a program not unlike the VA or FHA programs instituted after World War II, the government could create a whole new class of urban homeowners with a stake in the American dream.

Another interesting idea that has been proposed is the creation of Individual Development Accounts (IDAs) that foster savings among the asset-poor through matching funds. If such programs target individuals and communities that are both income- and asset-deprived, they will inevitably favor minorities while being ostensibly color-blind. The good news is that home ownership, savings, and asset accumulation are values that are universally espoused these days by both the left and right because it is generally agreed that stakeholders make better citizens.

Rather than redistribute wealth, another policy option entails making it matter less through the implementation of a color-blind, class-based affirmative-action policy in the areas of schooling and work. Current American affirmative-action policies, which give historically oppressed minorities a leg up in college admissions and in the labor market, are under increasing assault. Such practices have been outlawed through plebiscite or court order in a rapidly rising number of U.S. states. If affirmative action is to survive at all, it will be under a different guise. "Affirmative-asset" policy is one solution. This entails "positively discriminating" on the

basis of social-class background — as measured by income and wealth. Such a policy would blunt several of the criticisms of the current policy. First, it would not be based on race at all, or on "group rights" of any kind, something that is anathema to the American ideology of individualism. Asset-poor blacks and whites would receive a boost. Second, because parental net worth is not as obvious as skin color, such a policy would be less stigmatizing to the beneficiaries. Currently, even minorities who have not benefited personally from affirmative action are often "labeled" as having gotten where they are on account of government largesse. Third, basing preferential treatment on economic background would address the claim that affirmative action mainly benefits those minorities who need it the least, the middle and upper classes who were going to go to college and get good jobs anyway. By contrast, using an income and wealth formula, the "truly disadvantaged" would be aided.

Of course, the best course of action would be to opt for both policies — those to foster black property accumulation as well as a revised affirmative action program. Whether or not Americans will pursue either is, of course, another matter. However, one thing is for sure; until the United States does take some action along these lines, rising stock markets will only worsen divisions; America is still two societies, "separate and unequal."

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