

AFRICAN AMERICANS STRUGGLE TO BUILD WEALTH

Wealth is defined as the sum of the value of household assets, such as financial, retirement savings, home, car and business minus all debts. Simply put it, wealth is the difference between what a household owns and what they owe. When there is turbulent economy, households who have financial resources and build wealth would be able to withstand those shocks.

In other words, wealth serves families as economic security against financial crisis in the event of job loss, major household appliances and expensive auto repairs, prevent foreclosures, and absorb uncovered medical expenses. In the end, family assets help pay for the education of their children, make significant down payment toward homeownership, fund retirement plans, invest small businesses, and pay-off home loans, among other things.

Studies show that primary wealth generators include homeownership, household income, employment, level of educational attainment, inheritances, and financial support from families. However, African American households face unique institutional and policy challenges and discriminatory practices that African American households' wealth grow at a significantly lower rate than it is for whites, and these challenges are considered to be the main drivers of the increasing racial wealth gap in the United States.



The Urban Institute's *Wealth Inequalities* discusses the long lasting detriment of wealth inequality, including the limitation on economic mobility. They point out that the family wealth gap gets worse as people age. The chart below shows the disparity between the average family wealth for people in the U.S. born between 1943 and 1951 at different ages. The greatest disparity is for those at least age 60, with the white family wealth 11 times as great as for black or African American families, demonstrating the cumulative effect of the series of inequalities they face.

<http://www.urban.org/policy-centers/cross-center-initiatives/inequality-and-mobility/projects/wealth-inequalities>

Homeownership

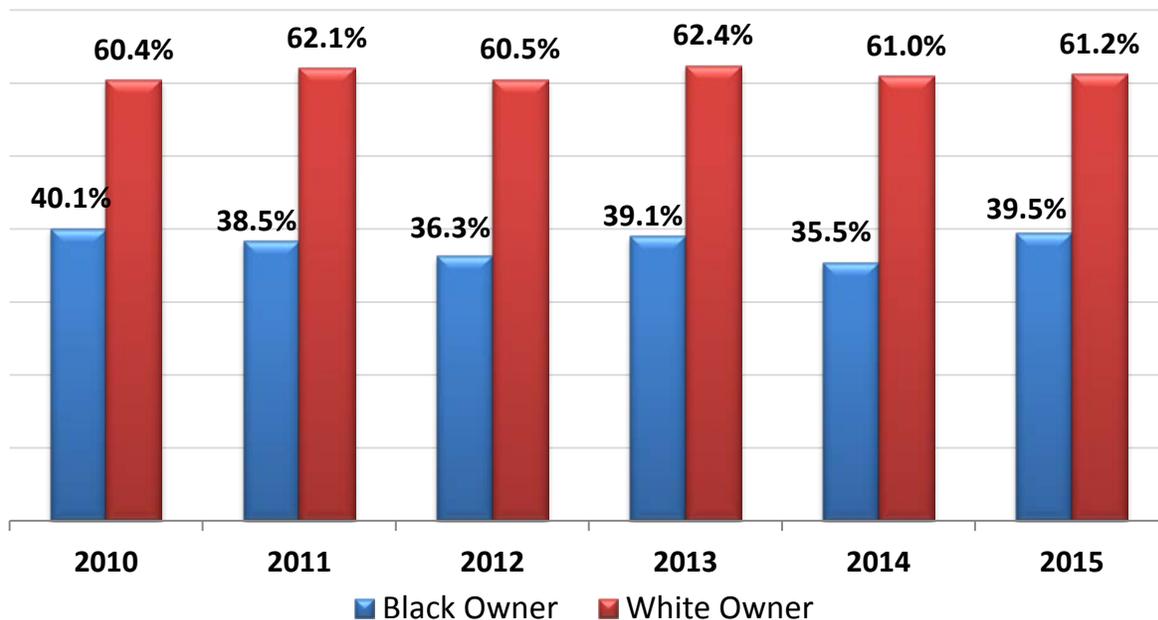
Despite the devastating effect of the Great Recession on home equities, studies reveal that not only homeownership is the most important financial investment most people make but also still is considered to be the most effective instrument for many households to save money and accumulate wealth for the future. A study by the Federal Reserve Bank, *Survey of Consumer Finances*, found that as of 2013, the median net worth of homeowners was \$195,400 compared to that of renters at \$5,400.

<https://www.federalreserve.gov/pubs/bulletin/2014/pdf/scf14.pdf>



The homeownership rate for African Americans is far lower than whites, as shown in the chart below. According to the 2016 Community Needs Evaluation of Metropolitan Social Services and Davidson County, the homeownership for white households is 61.2% while that of African Americans is 39.5%, a difference of 21.7 percentage points.

Homeownership by Race
Davidson County, 2010-2015



Source: 2015 American Community Survey, Tables B25003A-G

The lower homeownership rate, as a result of discriminatory and predatory lending practices, points that many African Americans lack this important source of equity, and hence, to wealth building opportunity. The reasons for this low rate of ownership are mainly attributed to discrimination in the process of homeownership, access to stable jobs and income, discriminatory and predatory lending practices, and deliberate government policies that redlined African American neighborhoods, labeling them as credit risks, and enforced racial segregation. It is also well known that African Americans are more likely to receive sub-prime loans or be deliberately steered to more risky loans, as some studies suggest.

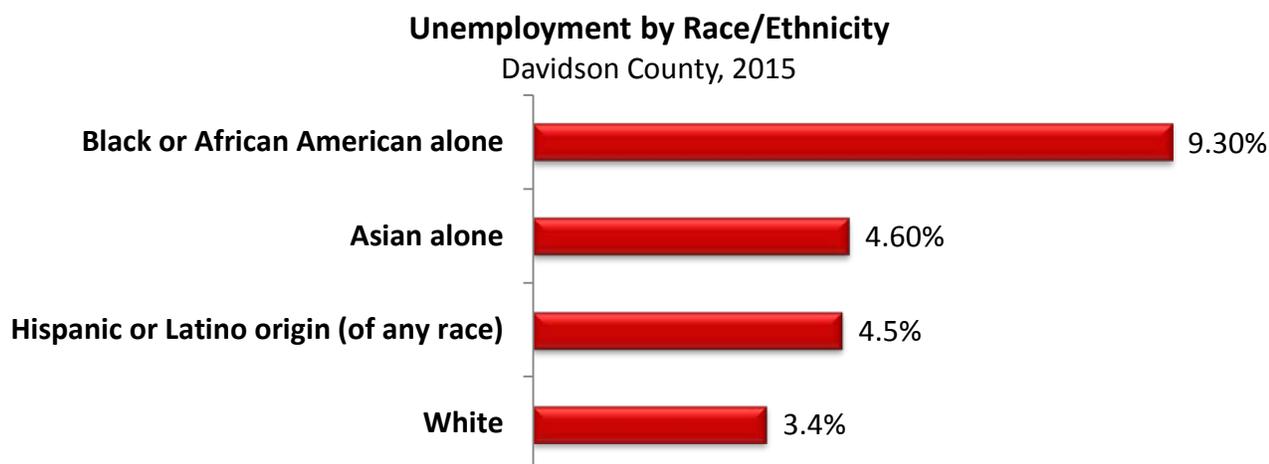
A brief by Institute on Assets and Social Policy, *The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide*, states that African Americans face many challenges in buying home, and hence build wealth. These include, government sanctioned residential segregation, which artificially lowers demand and values so their equity becomes less.

<https://iasp.brandeis.edu/pdfs/Author/shapiro-thomas-m/racialwealthgapbrief.pdf>

These deeply rooted and persistent discriminatory practices made wealth generation and accumulation very difficult for the large majority of African American households by creating high poverty concentrated neighborhoods with low property values. Related to the existence of low homeownership rate is the inability for African Americans to take advantage from the tax benefits of the mortgage interest deduction.

Employment

Good and gainful jobs can be the bedrock of an economic security through earned income, reliably covered healthcare benefits, paid leave, and employer-sponsored retirement plans. As a result, labor markets play an important role in wealth building. African American employment always lags behind, even in boom times, compared to other groups, particularly whites. As the chart below shows, in 2015, the unemployment rate for African Americans at 9.3% in Nashville is almost three times as that of whites, 3.4%.



Source: 2015 American Community Survey

It is a known fact that African Americans face discriminatory practices in recruitment, hiring, and promotions in the private sector employment. The criminal justice system that has focused on mass incarceration has had a disproportionate negative impact on African American men that struggle obtaining job opportunities since they have felony record. It is also well documented that many African Americans, especially women are employed in low-wage jobs that do not offer benefits, therefore any unexpected illness in the family that makes them miss work or expensive repairs would wipeout their savings, if any. As large numbers of workers are employed in industries that do not offer retirement benefits, they will struggle to accumulate resources for their retirement and would not be able to pass inheritance to their children.

Educational Attainment

Higher educational attainment is generally associated with higher earnings and is a potential wealth building opportunity and economic success for generations. However, racial educational attainment

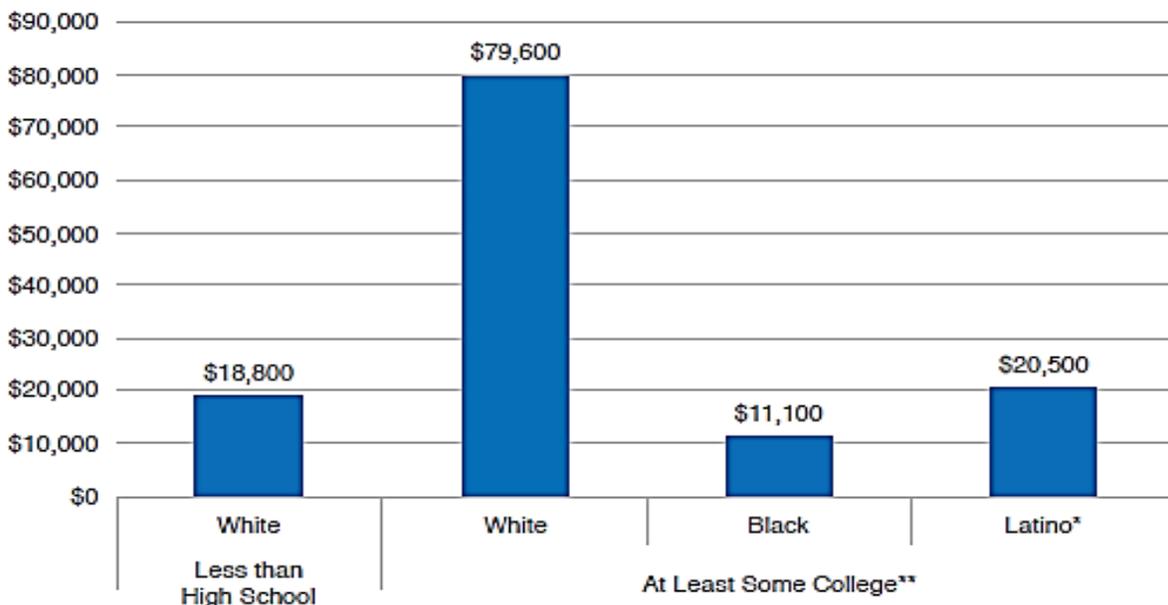
gap and its ever-widening long-term disparities begin even before birth. Most African Americans are born in segregated neighborhoods that are characteristically opportunity-deficit.

Children growing in low-income African American households experience some of the main elements of Early Childhood Experiences. It is also more likely that they may not have an opportunity to be enrolled in early childhood education, and start attending resource-deprived public schools that cannot offer high quality education. As a result, many of them are not prepared to enter and eventually complete college. The growing cost of higher education debt prevents African Americans furthering their education, which is believed to widen the achievement gap even more.

A recent report, *The Asset of Whiteness*, jointly published by Demos, a public policy organization promoting democracy and equality, and the Institute on Assets and Social Policy (IASP) states among other things, that the gap in college attainment is one of the driving factors of wealth gap between white households and blacks and Hispanics.

As the figure below shows, the study states that median wealth of college educated white adult is 7.2 times higher than the median black adult who attended college, and 3.9 times more wealth than the median Latino adult who attended college. More appallingly, to achieve the wealth level of white high school dropouts, black and Latino persons must attend college.

Median Wealth by Educational Attainment for Working Households Under Age 55
U. S., 2013



Source: Authors' calculations of the Survey of Consumer Finances, 2013

* Latino refers to anyone who identified as Hispanic or Latino on the Survey of Consumer Finances and may be of any race.

** This group includes households who attended college but attained no degree as well as those with associate's or bachelor's degrees. Households with graduate and professional degrees are not included.

The study identifies the costly student debt that black students often need to incur while attending college, and the subsequent discrimination they will face in their careers at the workplace. As a result, the report suggests that completing college does not close the racial wealth gap.

Due to these documented underlying disadvantages, it has been suggested that unless changes are made to policies that now reinforce wealth disparity, African Americans will remain at a disadvantage in accumulating enough resources to invest in their own futures to achieve economic security. In fact, a new study of the racial wealth gap published by the Institute for Policy Studies and the Corporation for Economic Development, *The Ever-Growing Gap*, notes that if current trends continue, it will take 228 years for black families to accumulate the same amount of wealth that white families have today. For the average Latino family, it will take 84 years.

http://www.ips-dc.org/wp-content/uploads/2016/08/The-Ever-Growing-Gap-CFED_IPS-Final-2.pdf

To change this troublesome and bleak future of the perpetuated racial wealth gap, some studies propose putting in place deliberate policies addressing the root causes of these historic injustices. These include significant investments in public schools where majority of African American children attend that will make education funding more equitable, creation of affordable higher education systems, enforce laws against discriminatory and predatory housing loans, elimination of neighborhood racial segregation and labor markets that provide better opportunities.

http://www.demos.org/sites/default/files/publications/RacialWealthGap_1.pdf