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# Introduction

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Each year two highly publicized news reports capture the attention and imagination of Americans. One lists the year's highest income earners. Predictably, they include glamorous and highly publicized entertainment, sport, and business personalities. For the past decade that list has included many African Americans: musical artists such as Michael Jackson, entertainers such as Bill Cosby and Oprah Winfrey, and sports figures such as Michael Jordan and Magic Johnson. During the recent past as many as half of the "top ten" in this highly exclusive rank have been African Americans.

Another highly publicized list, by contrast, documents the nation's wealthiest Americans. The famous *Forbes* magazine profile of the nation's wealthiest 400 focuses not on income, but on wealth. This list includes those people whose assets—or command over monetary resources—place them at the top of the American economic hierarchy. Even though this group is often ten times larger than the top earners list, it contains few if any African Americans. An examination of these two lists creates two very different perceptions of the well-being of America's black community on the eve of the twenty-first century. The large number of blacks on the top income list

generates an optimistic view of how black Americans have progressed economically in American society. The near absence of blacks in the *Forbes* listing, by contrast, presents a much more pessimistic outlook on blacks' economic progress.

This book develops a perspective on racial inequality that is based on the analysis of private wealth. Just as a change in focus from income to wealth in the discussion above provides a different perspective on racial inequality, our analysis reveals deep patterns of racial imbalance not visible when viewed only through the lens of income. This analysis provides a new perspective on racial inequality by exploring how material assets are created, expanded, and preserved.

The basis of our analysis is the analytical distinction between wealth and other traditional measures of economic status, of how people are "making it" in America (for example, income, occupation, and education). Wealth is a particularly important indicator of individual and family access to life chances. Income refers to a flow of money over time, like a rate per hour, week, or year; wealth is a stock of assets owned at a particular time. Wealth is what people own, while income is what people receive for work, retirement, or social welfare. Wealth signifies the command over financial resources that a family has accumulated over its lifetime along with those resources that have been inherited across generations. Such resources, when combined with income, can create the opportunity to secure the "good life" in whatever form is needed—education, business, training, justice, health, comfort, and so on. Wealth is a special form of money not used to purchase milk and shoes and other life necessities. More often it is used to create opportunities, secure a desired stature and standard of living, or pass class status along to one's children. In this sense the command over resources that wealth entails is more encompassing than is income or education, and closer in meaning and theoretical significance to our traditional notions of economic well-being and access to life chances.

More important, wealth taps not only contemporary resources but material assets that have historic origins. Private wealth thus captures inequality that is the product of the past, often passed down from generation to generation. Given this attribute, in attempting to understand the economic status of blacks, a focus on wealth helps us avoid the either-or view of a march toward progress or a trail of despair. Conceptualizing racial inequality through wealth revolutionizes our conception of its nature and magnitude, and of

whether it is declining or increasing. While most recent analyses have concluded that contemporary class-based factors are most important in understanding the sources of continuing racial inequality, our focus on wealth sheds light on both the historical and the contemporary impacts not only of class but of race.

The empirical heart of our analysis resides in an examination of differentials in black and white wealth holdings. This focus paints a vastly different empirical picture of social inequality than commonly emerges from analyses based on traditional inequality indicators. The burden of our claim is to demonstrate not simply the taken-for-granted assumption that wealth reveals “more” inequality— $\text{income} \times \text{times}$  is not the correct equation. More importantly we show that wealth uncovers a qualitatively different pattern of inequality on crucial fronts. Thus the goal of this work is to provide an analysis of racial differences in wealth holding that reveals dynamics of racial inequality otherwise concealed by income, occupational attainment, or education. It is our argument that wealth reveals a particular network of social relations and a set of social circumstances that convey a unique constellation of meanings pertinent to race in America. This perspective significantly adds to our understanding of public policy issues related to racial inequality; at the same time it aids us in developing better policies for the future. In stating our case, we do not discount the important information that the traditional indicators provide, but we argue that by adding to the latter an analysis of wealth a more thorough, comprehensive and powerful explanation of social inequality can be elaborated.

Our argument supporting the importance of wealth in understanding contemporary racial inequality develops and unfolds in three parts. Chapters 1 and 2 introduce the importance of wealth to racial inequality. Chapters 3 through 5 present a detailed analysis of wealth holding in America with an emphasis on how class and race have structured racial inequality. The final two chapters identify the main sources of the enormous racial wealth disparity and propose preliminary means of addressing that disparity. Through the development of a “sociology of wealth and racial inequality” we situate the study of wealth among contemporary concerns with race, class, and social inequality.

Economists argue that racial differences in wealth are a consequence of disparate class and human capital credentials (age, education, experience, skills), propensities to save, and consumption patterns. A sociology of wealth seeks to properly situate the social context in which wealth generation occurs.

Thus the sociology of wealth accounts for racial differences in wealth holding by demonstrating the unique and diverse social circumstances that blacks and whites face. One result is that blacks and whites also face different structures of investment opportunity, which have been affected historically and contemporaneously by both race and class. We develop three concepts to provide a sociologically grounded approach to understanding racial differentials in wealth accumulation. These concepts highlight the ways in which this opportunity structure has disadvantaged blacks and helped contribute to massive wealth inequalities between the races.

Our first concept, "racialization of state policy," refers to how state policy has impaired the ability of many black Americans to accumulate wealth—and discouraged them from doing so—from the beginning of slavery throughout American history. From the first codified decision to enslave African Americans to the local ordinances that barred blacks from certain occupations to the welfare state policies of today that discourage wealth accumulation, the state has erected major barriers to black economic self-sufficiency. In particular, state policy has structured the context within which it has been possible to acquire land, build community, and generate wealth. Historically, policies and actions of the United States government have promoted homesteading, land acquisition, home ownership, retirement, pensions, education, and asset accumulation for some sectors of the population and not for others. Poor people—blacks in particular—generally have been excluded from participation in these state-sponsored opportunities. In this way, the distinctive relationship between whites and blacks has been woven into the fabric of state actions. The modern welfare state has racialized citizenship, social organization, and economic status while consigning blacks to a relentlessly impoverished and subordinate position within it.

Our second focus, on the "economic detour," helps us understand the relatively low level of entrepreneurship among and the small scale of the businesses owned by black Americans. While blacks have historically sought out opportunities for self-employment, they have traditionally faced an environment, especially from the postbellum period to the middle of the twentieth century, in which they were restricted by law from participation in business in the open market. Explicit state and local policies restricted the rights of blacks as free economic agents. These policies had a devastating impact on the ability of blacks to build and maintain successful enterprises. While blacks were limited to a restricted African American market to which others (for example,

whites and other ethnics) also had easy access, they were unable to tap the more lucrative and expansive mainstream white markets. Blacks thus had fewer opportunities to develop successful businesses. When businesses were developed that competed in size and scope with white businesses, intimidation and ultimately, in some cases, violence were used to curtail their expansion or get rid of them altogether. The lack of important assets and indigenous community development has thus played a crucial role in limiting the wealth-accumulating ability of African Americans.

The third concept we develop is synthetic in nature. The notion embodied in the "sedimentation of racial inequality" is that in central ways the cumulative effects of the past have seemingly cemented blacks to the bottom of society's economic hierarchy. A history of low wages, poor schooling, and segregation affected not one or two generations of blacks but practically all African Americans well into the middle of the twentieth century. Our argument is that the best indicator of the sedimentation of racial inequality is wealth. Wealth is one indicator of material disparity that captures the historical legacy of low wages, personal and organizational discrimination, and institutionalized racism. The low levels of wealth accumulation evidenced by current generations of black Americans best represent the economic status of blacks in the American social structure.

To argue that blacks form the sediment of the American stratificational order is to recognize the extent to which they began at the bottom of the hierarchy during slavery, and the cumulative and reinforcing effects of Jim Crow and de facto segregation through the mid-twentieth century. Generation after generation of blacks remained anchored to the lowest economic status in American society. The effect of this inherited poverty and economic scarcity for the accumulation of wealth has been to "sediment" inequality into the social structure. The sedimentation of inequality occurred because the investment opportunity that blacks faced worked against their quest for material self-sufficiency. In contrast, whites in general, but well-off whites in particular, were able to amass assets and use their secure financial status to pass their wealth from generation to generation. What is often not acknowledged is that the same social system that fosters the accumulation of private wealth for many whites denies it to blacks, thus forging an intimate connection between white wealth accumulation and black poverty. Just as blacks have had "cumulative disadvantages," many whites have had "cumulative advantages." Since wealth builds over a lifetime and is then passed along to kin, it is, from our

perspective, an essential indicator of black economic well-being. By focusing on wealth we discover how black's socioeconomic status results from a socially layered accumulation of disadvantages passed on from generation to generation. In this sense we uncover a racial wealth tax.

Our empirical analysis enables us to raise and answer several key questions about wealth: How has wealth been distributed in American society over the twentieth century? What changes in the distribution of wealth occurred during the 1980s? And finally, what are the implications of these changes for black-white inequality?

During the eighties the rich got much richer, and the poor and middle classes fell further behind. Why? We will show how the Reagan tax cuts provided greater discretionary income for middle- and upper-class taxpayers. One asset whose value grew dramatically during the eighties was real estate, an asset that is central to the wealth portfolio of the average American. Home ownership makes up the largest part of wealth held by the middle class, whereas the upper class more commonly hold a greater degree of their wealth in financial assets. Owning a house is the hallmark of the American Dream, but it is becoming harder and harder for average Americans to afford their own home and fewer are able to do so.

In part because of the dramatic rise in home values, the wealthiest generation of elderly people in America's history is in the process of passing along its wealth. Between 1987 and 2011 the baby boom generation stands to inherit approximately \$7 trillion. Of course, all will not benefit equally, if at all. One-third of the worth of all estates will be divided by the richest 1 percent, each legatee receiving an average inheritance of \$6 million. Much of this wealth will be in the form of property, which, as the philosopher Robert Nozick is quoted as saying in a 1990 *New York Times* piece, "sticks out as a special kind of unearned benefit that produces unequal opportunities." Kevin, a seventy-five-year-old retired homeowner interviewed for this study, captures the dilemma of unearned inheritance:

You heard that saying about the guy with a rich father? The kid goes through life thinking that he hit a triple. But really he was born on third base. He didn't hit no triple at all, but he'll go around telling everyone he banged the fucking ball and it was a triple. He was born there!

Inherited wealth is a very special kind of money imbued with the shadows of race. Racial difference in inheritance is a key feature of our story. For

the most part, blacks will not partake in divvying up the baby boom bounty. America's racist legacy is shutting them out. The grandparents and parents of blacks under the age of forty toiled under segregation, where education and access to decent jobs and wages were severely restricted. Racialized state policy and the economic detour constrained their ability to enter the post-World War II housing market. Segregation created an extreme situation in which earlier generations were unable to build up much, if any, wealth. We will see how the average black family headed by a person over the age of sixty-five has no net financial assets to pass down to its children. Until the late 1960s there were few older African Americans with the ability to save much at all, much less invest. And no savings and no inheritance meant no wealth.

The most consistent and strongest common theme to emerge in interviews conducted with white and black families was that family assets expand choices, horizons, and opportunities for children while lack of assets limit opportunities. Because parents want to give their children whatever advantages they can, we wondered about the ability of the average American household to expend assets on their children. We found that the lack of private assets intrudes on the dreams that many Americans have for their children. Extreme resource deficiency characterizes several groups. It may surprise some to learn that 62 percent of households headed by single parents are without savings or other financial assets, or that two of every five households without a high school degree lack a financial nest egg. Nearly one-third of all households—and 61 percent of all black households—are without financial resources. These statistics lead to our focus on the most resource-deficient households in our study—African Americans.

We argue that, materially, whites and blacks constitute two nations. One of the analytic centerpieces of this work tells a tale of two middle classes, one white and one black. Most significant, the claim made by blacks to middle-class status depends on income and not assets. In contrast, a wealth pillar supports the white middle class in its drive for middle-class opportunities and a middle-class standard of living. Middle-class blacks, for example, earn seventy cents for every dollar earned by middle-class whites but they possess only fifteen cents for every dollar of wealth held by middle-class whites. For the most part, the economic foundation of the black middle class lacks one of the pillars that provide stability and security to middle-class whites—assets. The black middle class position is precarious and fragile with insubstantial wealth resources. This analysis means it is entirely premature to celebrate the rise of

the black middle class. The glass is both half empty and half full, because the wealth data reveal the paradoxical situation in which blacks' wealth has grown while at the same time falling further behind that of whites.

The social distribution of wealth discloses a fresh and formidable dimension of racial inequality. Blacks' achievement at any given level not only requires that greater effort be expended on fewer opportunities but also bestows substantially diminished rewards. 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,<sup>6</sup> but even here at the pinnacle of achievement whites control four times as much wealth as blacks with the same degrees. This predicament manifests a disturbing break in the link between achievement and results that is essential for democracy and social equality.

The central question of this study is, Why do the wealth portfolios of blacks and whites vary so drastically? The answer is not simply that blacks have inferior remunerable human capital endowments—substandard education, jobs, 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 a 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.

The extent of discrimination in institutions and social policy provides a persuasive index of bias that undergirds the drastic differences between blacks and whites. 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. Residential segregation persists into the 1990s, and we found that the great rise in housing values is color-coded. Why should the mean value of the average white home appreciate at a dramatically higher rate than the average black home? Home ownership is without question the single most important means of accumulating assets. The lower values of black homes adversely affect the ability of blacks to utilize their residences as collateral for obtaining personal, business, or educational loans. We estimate that

institutional biases in the residential arena have cost the current generation of blacks about \$82 billion. Passing inequality along from one generation to the next casts another racially stratified shadow on the making of American inequality. Institutional discrimination in housing and lending markets extends into the future the effects of historical discrimination within other institutions.

Placing these findings in the larger context of public policy discussions about racial and social justice adds new dimensions to these discussions. A focus on wealth changes our thinking about racial inequality. The more one learns about wealth differences, the more mistaken current policies appear. To take these findings seriously, as we do, means not shirking the responsibility of seeking alternative policy ideas with which to address issues of inequality. We might even need to think about social justice in new ways. In some key respects our analysis of disparities in wealth between blacks and whites forms an agenda for the future, the key principle of which is to link opportunity structures to policies promoting asset formation that begin to close the racial wealth gap.

Closing the racial gap means that we have to target policies at two levels. First, we need policies that directly address the situation of African Americans. Such policies are necessary to speak to the historically generated disadvantages and the current racially based policies that have limited the ability of blacks, as a group, to accumulate wealth resources.

Second, we need policies that directly promote asset opportunities for those on the bottom of the social structure, both black and white, who are locked out of the wealth accumulation process. More generally, our analysis clearly suggests the need for massive redistributive policies in order to reforge the links between achievement, reward, social equality, and democracy. These policies must take aim at the gross inequality generated by those at the very top of the wealth distribution. Policies of this type are the most difficult ones on which to gain consensus but the most important in creating a more just society.

This book's underlying goal is to establish a way to view racial inequality that will serve as a guide in securing racial equality in the twenty-first century. Racial equality is not an absolute or idealized state of affairs, because it cannot be perfectly attained. Yet the fact that it can never be perfectly attained in the real world is a wholly insufficient excuse for dismissing it as utopian or impossible. What is important are the bearings by which a nation chooses to

orient its character. We can choose to let racial inequality fester and risk heightened conflict and violence. Americans can also make a different choice, a commitment to equality and to closing the gap as much as possible. We must reexamine the values, preferences, interests, and ideals that define us. Fundamental change must be addressed before we can begin to affirmatively answer Rodney King's poignant plea: "Can we all just get along?" This book was written to help us understand how far we need to go and what we need to do to get there.