

## Racial Disparities in Household Wealth Following the Great Recession

Fenaba R. Addo and William A. Darity, Jr.

### TAKEAWAYS

Persistent generational wealth gaps are a defining feature of racial inequality in the United States.

The fragility of Black households' middle-class status becomes increasingly evident when seen through the lens of household wealth rather than income alone.

Wealth accumulation is transformative across households and generations; supporting economic mobility and helping to solidify a household's social, political, and economic status.

The persistent over-representation of Black households' wealth position at the bottom of the socioeconomic distribution is a function of cumulative, intergenerational conditions.



Institute for  
Research on  
Poverty

UNIVERSITY OF WISCONSIN-MADISON

irp.wisc.edu

### Wealth inequality across racialized groups in the United States

is immense, persistent, and well-documented. Being part of a marginalized racial or ethnic group in the United States predicts one's economic position in society more strongly than education, income, or employment status.<sup>1</sup> This pattern held steady throughout the extended period of economic recovery following the Great Recession. In short, increases in economic well-being during the recovery period were not equally distributed and this was especially true for working-class people.

Household income is a narrow lens through which to view economic disparities in the United States. A wealth-based perspective of class status widens the aperture to examine disparities between racialized groups, especially among those afforded subaltern status—people living under conditions of systematic marginalization such as Black Americans in the United States.<sup>2</sup> Wealth accumulation is transformative across households and generations; it supports economic mobility and helps solidify a household's social, political, and economic status. The persistent over-representation of Black households' wealth position at the bottom of the socioeconomic distribution is a function of cumulative, intergenerational conditions—a frustrated denial of long-term efforts to acquire lasting wealth.<sup>3</sup>

In this study, we evaluated wealth values of households headed by non-Latinx Black, Latinx, and non-Latinx white respondents of prime working age (i.e., 25 to 64 years old) and actively participating in the labor force. Our data emerge from the Survey of Consumer Finances (SCF). SCF data allows researchers to generate nuanced and effective measures of household net worth across multiple domains of social class status. Household wealth as we define it includes all financial and non-financial assets minus total household liabilities or debts. Rather than relying on single-unit measures of income, or combined measures of income and educational attainment, household wealth acts as a more robust measure of economic well-being.

We define working class heads of households as those (1) employed by someone else and (2) not holding managerial or professional positions. Across the post-recession recovery period—from 2010 to 2019—the majority of Black and Latinx households in the labor force remained in working-class rather than professional-class jobs. For non-Latinx white households the ratio of working class to professional class positions is nearly 50-50 whereas for non-Latinx Black households the ratio is closer to two-thirds working-class to one-third professional-class (see Figure 1). Among Latinx populations throughout the recovery period, over three-fourths of labor force participants fell under working-class rather than professional-class status.

Median household wealth held by the poorest white households—those in the bottom 20 percent of the income distribution—is generally larger than the median wealth held by Black households in any income bracket. By the end of the recovery period white households in the lowest end of the income distribution held a median average of \$26,340

in assets compared to median household wealth of \$24,800 for all Blacks in the United States, according to SCF data. In comparison, Black households in the bottom 20 percent of the income distribution held a median net worth of about \$1,900. By 2019, white working-class households had nearly three times the median wealth of Black professional-class households and almost six times the wealth of Black working-class households.

If educational attainment were used as an alternative measure of social class position, similar disparities would hold true. Black heads of household with a college degree, on average, have only two-thirds of the net worth of white heads of household who never finished high school. These stark and persistent gulfs in financial well-being exist for large portions of the U.S. American population.

To compare wealth and income disparities across race and social class status, a similar paradox exists. Black workers with higher levels of income, across the board, tend to have much lower levels of wealth than low-income white households. Between 2013 to 2019, there was a change in the ratio of professional class Black income to working class white income from about \$.84 cents to the dollar to about \$.87 cents to the dollar. In 2010, Black professionals saw about \$.44 cents to the dollar of net worth held by members of the white working class; by 2015, the proportion of net worth held by Black professionals compared to white working-class households dropped to \$.15 cents to the dollar, recovering only slightly, to \$.17 cents, by 2019.

In the early post-recession years, the gap in Black-white wealth holdings increased so that, by the end of the recovery period, Black households held just one-tenth of the net worth of white households.<sup>4</sup> In short, fewer Black working-class households benefitted from the post-recession economic recovery relative to wealth gains seen among white working-class households. Working-class white households experienced the greatest increase in both absolute and relative wealth accumulation throughout the recovery. Many Black households entered the COVID-19 pandemic in a state of financial precarity and household wealth among the Black professional class continues to lag far behind the wealth position of the white working class.

A large part of wealth accumulation for many Americans is home and property ownership. Home ownership rates for Blacks rose from about 43 percent at the turn of the century to 48 percent just prior to the Great Recession<sup>5</sup> and, in the same period, rose to a record high of about 45 percent for Latinos.<sup>6</sup> Discriminatory practices such as redlining in urban areas have perpetuated persistent residential segregation, created large clusters of low home-equity potential, and conditions within which Black and Latino homeowners found themselves more likely subject to both subprime loan schemes and subsequent involuntary home loss due to foreclosure.<sup>7</sup> Given that racial wealth inequality is driven strongly by differences in assets between Black and white Americans—rather than differences associated with liabilities—higher rates of homeownership loss among Black households is a significant concern. Indeed, as the recovery period evolved, the net worth of white households rose to thirteen times the median wealth of Black households, up from an eight-fold difference prior to the recession.<sup>8</sup>

Figure 1. Although working-class heads-of-household comprise higher percentages of the labor force, ratios differ across racialized categories.

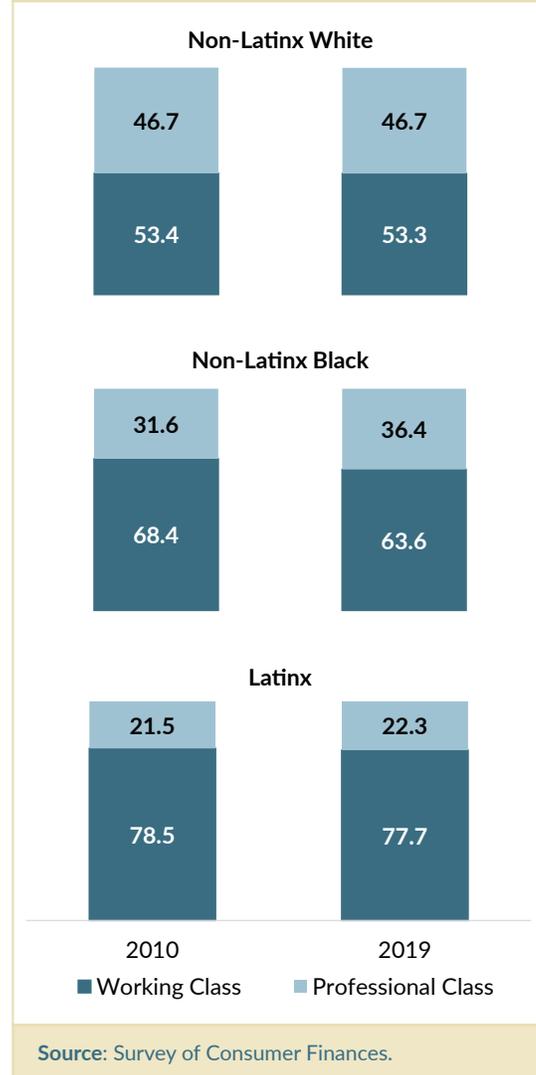
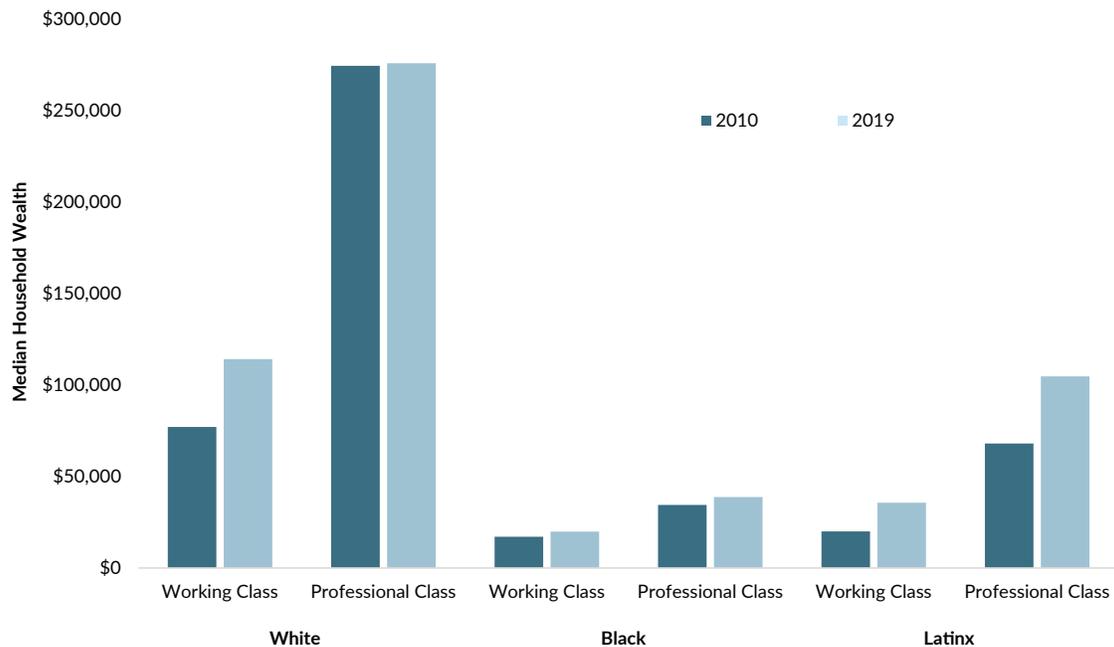


Figure 2. Median net worth of all Black households remained lower than white working-class households throughout post-recession recovery.



Source: Survey of Consumer Finances.

Wealth transfer across generations, through property wealth such as real estate or other financial assets, is a significant vehicle for the maintenance of intergenerational wealth. Our results show that white households across the range of wealth strata are more likely to receive family financial gifts and inheritances than Black or Latino households. Family wealth transfers among professional households are a primary vehicle for moving parental and grandparental wealth into the hands of younger generations.

Persistent generational wealth gaps are a defining feature of racial inequality in the United States. We point this out because there has been a push among economists at the Federal Reserve Board and elsewhere to suggest that if income differences across race and social class status can be overcome, it will help close the racial wealth gap in the United States. We suggest far more dramatic efforts must be made to effectively close wealth gaps across racial lines. A reparations plan for descendants of formerly enslaved Black Americans, for example, is one such effort that could help disrupt the systemic forces that continue perpetuating such stark differences in racial wealth inequality.<sup>9</sup>

Our work here presents an intersectional analysis of race and class. Focusing on an occupational-based definition of working and professional class allows us to see that economic security and opportunity vary a great deal across racial and ethnic groups. The fragility of Black households' middle-class status becomes even more evident when seen through the lens of household wealth rather than income alone. As the COVID-19 crisis has extended, the precarious nature of Black wealth will persist. For example, research has estimated that by the end of April 2020, about 4 in 10 Black-owned businesses had closed their doors.<sup>10</sup>

The SCF data we draw upon, despite being high quality for household wealth data, does not include any details on intergenerational wealth nor the relative wealth positions of American Indians and Alaska Natives (AIAN) and Native Hawaiian and Pacific Islander (NHPI) groups, therefore creating an incomplete picture working-class demographics overall. Randall Akee's work (also in this edition of *Focus on Poverty*) provides valuable insights into the employment conditions of working-age AIAN and NHPI populations, however.

We have sought to provide pragmatic and nuanced perspectives on racial wealth inequality during and after the Great Recession, particularly among Black working-class populations. These trends can be linked directly to the prolonged persistence of racialized wealth inequality that perpetuates financial precarity for current and future generations of minoritized working-class citizens in the United States. ■

*Fenaba R. Addo is Associate Professor of Public Policy at the University of North Carolina at Chapel Hill.*

*William A. Darity Jr. is Samuel DuBois Cook Distinguished Professor of Public Policy at Duke University.*

<sup>1</sup>Addo, F.R. & Darity, W.A. Jr. (2021, May). Disparate recoveries: Wealth, race, and the working class after the Great Recession. *Annals of the American Academy of Political and Social Science*, 695, 173–192. <https://doi.org/10.1177/00027162211028822>

<sup>2</sup>Darity, W.A. Jr., Addo, F.R. & Smith, I.Z. (2020). A subaltern middle class: The case of the missing Black bourgeoisie. *Contemporary Economic Policy*, 39(3), 494–502. <https://doi.org/10.1111/coep.12476>

<sup>3</sup>Oliver, M.L. & Shapiro, T. (2006). *Black wealth, white wealth: A new perspective on racial inequality*. New York, NY: Routledge.

<sup>4</sup>Dettling, L.J., Hsu, J.W., Jacobs, L., Moore, K.B., & Thompson, J.P. (2017). *Recent trends in wealth-holding by race and ethnicity: Evidence from the Survey of Consumer Finances*. Washington, DC: Board of Governors of the Federal Reserve System. <https://doi.org/10.17016/2380-7172.2083>

<sup>5</sup>Taylor, P., Kochhar, R., Fry, R., Velasco, G., & Motel, S. (2011, July 26). *Wealth gaps rise to record highs between whites, Blacks and Hispanics*. Washington, DC: Pew Research Center. <https://www.pewresearch.org/social-trends/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/>

<sup>6</sup>U.S. Department of Housing and Urban Development (HUD). (2000). U.S. homeownership rates highest in nation's history. HUD user policy development and research. Information Service, 18-00. Washington, DC: HUD.

<sup>7</sup>Faber, J.W. (2013). Racial dynamics of subprime mortgage lending at the peak. *Housing Policy Debate*, 23(2): 328-49. <https://doi.org/10.1080/10511482.2013.771788> See also: Sharp, G. & Hall, M. (2014). Emerging forms of racial inequity in homeownership exit, 1968–2009. *Social Problems*, 61(3), 427–447. <https://doi.org/10.1525/sp.2014.12161>

<sup>8</sup>Leigh, W.A. Huff, D. (2007). *African Americans and homeownership: The subprime lending experience, 1995 to 2007*. Washington, DC: The Joint Center for Political and Economic Studies.

<sup>9</sup>Darity, W.A. Jr. & Mullen, A.K. (2020). *From Here to Equality: Reparations for Black Americans in the Twenty-First Century*. The University of North Carolina Press: Chapel Hill.

<sup>10</sup>Fairlie, R. (2020). The impact of COVID-19 on small business owners: The first three months after social distancing restrictions. NBER Working Paper no. w27462. National Bureau of Economic Research, Cambridge, MA. <https://www.nber.org/papers/w27462>