TRACING THE CAUSES OF RACIAL WEALTH DISPARITY

A Report for the Z. Smith Reynolds Foundation

Center on Poverty, Work and Opportunity
University of North Carolina at Chapel Hill

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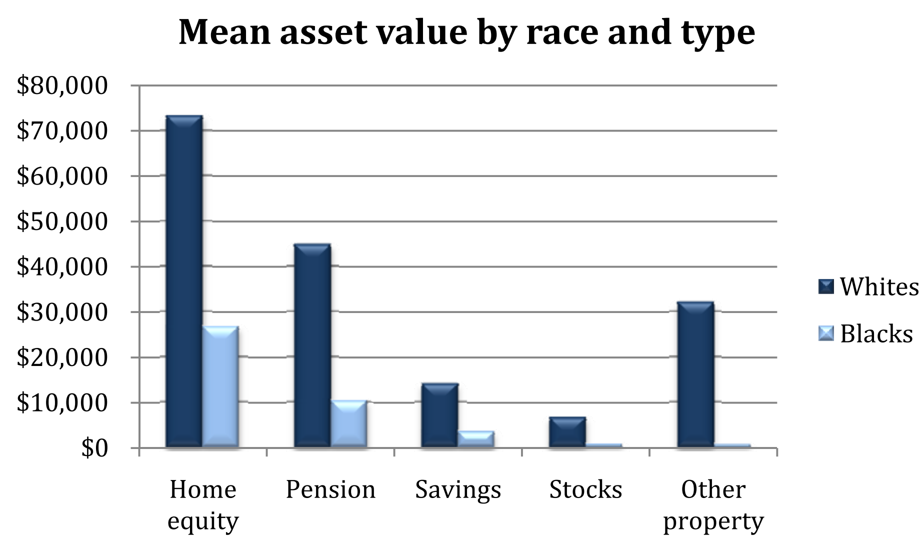
Introduction and Summary[1]

The UNC Center on Poverty, Work and Opportunity, at the Z. Smith Reynolds Foundation's request, followed its report on economic distress in North Carolina[2] with an empirical study of wealth differentials in the state, published September 1, 2010.[3] That analysis, based on federal census and asset data, demonstrated that the sharp disparities in wealth—long documented at the national level—are even starker in North Carolina. Black households, at the median, claim only about 13 percent of the wealth and 4 percent of the net worth of white households.[4] Median wealth for white households is roughly seven times that of black households. In North Carolina, with the exception of life insurance, the harsh differentials spread across all reported asset categories: the mean value of home equity for African Americans is 36 percent that of whites; the mean value of pensions 23 percent that of whites; and savings for African Americans are a quarter of the value of white savings (with significantly lower participation rates) (Figure 1).

Figure 1



Source: UNC Poverty Center analysis of SIPP data

[1] This report was written principally by Gene Nichol, with assistance from Heather Hunt and Wendy Spitzer of the Center on Poverty, Work and Opportunity. Research assistance was provided by UNC graduate and law students Surraya Johnson, Augustus Anderson and Jason Kajer.
[2] Center on Poverty, Work and Opportunity, "Documenting Poverty and Economic Challenge in North Carolina, A Report for the Z. Smith Reynolds Foundation," http://www.law.unc.edu/documents/poverty/publications/documentingpoverty_finalreport.pdf.
[3] Center on Poverty, Work and Opportunity, "Racial Wealth Disparities in North Carolina," http://www.law.unc.edu/documents/poverty/publications/racial_wealth_disparity_in_nc_unc_cpwo.pdf.
[4] Ibid., 6. Wealth is defined as the sum of the market value of all assets held by each person living in the household. Net worth is the household's total wealth minus total debt.

The distinctions hold for all income levels and at all stages of life. Black women endure wealth dichotomies of both sex and race that are large and growing.[5] Racial wealth disparities massively outpace income differentials.[6] Recent national studies echo and magnify this broad and distressing trend.[7] And surely the recession of 2008-2010, which has disproportionately burdened persons of color, has exacerbated, rather than eased, the chasm of polarization.

This spring, the Center on Poverty, Work and Opportunity contracted with the Z. Smith Reynolds Foundation to explore the understood causes of racial wealth disparity. What follows is an examination, based upon national and, in some instances, North Carolina data and research, of the principal contributing causes of the dramatic differences that exist in economic assets and resources between white and African American households.

We conclude that the causes of our dramatic and seemingly intractable racial wealth differentials are multiple, pervasive, encompassing and reinforcing. They are both public and private, cultural and individualized, historical and continuing, capacity-based and externally driven, political and personal, government sanctioned and collectively embraced. There is little doubt that when it comes to the accumulation of wealth—in North Carolina and in the nation at large—blacks and whites are not similarly situated. The lingering, and often cumulative, impacts of tragically discriminatory public policies of earlier decades and centuries play a potent role in the continuing presence of near-grotesque levels of disparity tied to race. Other existing governmental practices, even when not designed to discriminate on the basis of race, serve further to separate the plights and the spheres of economic winners and losers. Policies that favor handily the most economically advantaged, at this time in our history, significantly augment racial wealth polarization. Public programs and institutions have contributed so impressively to modern racial wealth disparities that it is sensible to explore new governmental programs and policies designed directly to alleviate such debilitating and marginalizing inequalities.

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[5] Center on Poverty, Work and Opportunity, "Racial Wealth Disparities in North Carolina,"; Insight Center for Community Economic Development, *Lifting as We Climb: Women of Color, Wealth and America's Future* (Oakland, CA: Insight Center, Spring 2010), http://www.neweconomicsforwomen.org/media/lifting_as_we_climb.pdf.

[6] Edward N. Wolff*, Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze – an Update to 2007*, Levy Economic Institute, Working Paper No. 589 (Annandale-on-Hudson, NY: Levy Economic Institute of Bard College, March 2010). "In 2007, the ratio of non-Hispanic white and non-Hispanic black median incomes was .60, the ratio of mean and median wealth holdings was even lower, at .19 and .06 respectively." See also, Thomas M. Shapiro, Tatjana Meschede and Laura Sullivan, *The Racial Wealth Gap Increases Fourfold* (Waltham, MA: Institute on Assets and Social Policy, Brandeis University, May 2010); Michael Powell, "Wealth, Race and the Great Recession," *New York Times*, May 17, 2010, http://economix.blogs.nytimes.com/2010/05/17/wealth-race-and-the-great-recession.

[7] Wolff*, Recent Trends in Household Wealth in the United States*, 23. "Median wealth among black households actually dipped by 29 percent between 2004 and 2007, reflecting, in part, the rising share of black households with zero or negative net income, while it rose by 11 percent among white households." See also, Shapiro, Meschede and Sullivan, *The Racial Wealth Gap Increases Fourfold*, showing that the racial wealth gap has more than quadrupled between 1984 and 2007.

Nor can one comprehend the contours of racial wealth disparity without exploring its pervasive links to housing policies, programs, residential segregation, finance and valuation. For most North Carolinians, equity in their home constitutes a very significant portion of amassed wealth. But programs either requiring or abetting residential racial segregation, imposed initially by the government and then later privately sustained, have resulted in large disparities between African American and white housing valuations. Discriminatory lending practices and predatory financial programs have further diminished black holdings. Residual, private, and education-related segregative housing decisions continue to suppress black housing values and inflate those of whites.

Intergenerational transfers also play a significant role in the accumulation of economic resources. At various stags of life, these contributions provide powerful sustenance to subsequent asset development. Parents who are able to provide college expenses, economic assistance when their children marry or purchase a home, and bequeath substantial resources at death, add vitally to their children's wealth portfolios. African American parents are able to provide such transfers at dramatically lower rates than whites. These divergent inheritance and support patterns also reportedly result in diminished social mobility for African American families—leaving white children more likely to move ahead generationally, in income and wealth categories, than their black counterparts.

Employment, entrepreneurship and investment patterns also play a major role in racial wealth disparity. Controlling for education and training levels, the median wage for black full-time workers ranges from 74-83 percent of that of white full-time workers. African Americans are strongly overrepresented in occupations that receive lower wages, pension and health care benefits. Black unemployment and underemployment rates in North Carolina are much higher than those for whites. Unemployed blacks tend to be jobless for longer periods of time than unemployed workers from other racial groups. The restructuring of the economy that has occurred in North Carolina over the past three decades has disproportionately displaced black workers. Newly released studies indicate that the 2008-2010 recession has accelerated our transition to a knowledge-based economy, creating what are likely to be even greater strains of dislocation.

Blacks are also self-employed at much lower rates than whites. Black-owned businesses in North Carolina account for only a tiny percentage of total business revenues. And, unsurprisingly given their relative financial resources, black and Hispanic families have much lower rates of stock ownership and other high-yield investments than white families, leaving them less able to benefit from trends of economic expansion.

Finally, the marriage rate for Americans has dropped very significantly over the past half-century. The marriage rate for black women is markedly lower than that of white women. The percentage of children born out of wedlock now approaches forty percent nationally and is even higher for African Americans and Hispanics. A child born to a single mother is much more likely to live in poverty than a child born to a married couple. Still, scholars have found that even after accounting for family structure, education, and the like, powerful racial wealth disparities remain.

No doubt the list of contributing causes to racial wealth disparity could be sensibly rendered even longer.[8] It seems clear, though, that varied as they may be, some potent factors dominate. The lingering impacts of discriminatory public policies; the persistence of residential housing segregation; the propensity of economic downtowns to punish most harshly those at the bottom; the marginalization of black North Carolinians from vital economic, employment and investment channels; the challenges of non-traditional family structures; the disproportionate impacts of the state's economic restructuring—these surely capture the central components of our debilitating asset differentials. Just as clearly, dramatic racial wealth disparity poses a daunting hurdle to our efforts, in Frank Graham's words, to "build a nobler and fresher civilization in this ancient commonwealth."

1. Racial Wealth Disparity Continues to Be a Massive and Growing Problem Nationally and in North Carolina

The SIPP data that formed the basis of our September 2010 wealth disparity study was unavoidably pre-recession in focus. Dismayingly, it seems clear that the 2008-2010 recession only exacerbated the challenges of wealth inequality. The top quintile own 85 percent of all wealth in the United States and 93 percent of all non-home wealth.[9] The richest one percent of households claim about half of all outstanding stock, financial securities, trust equity and business equity.[10] A recently released national study by the Economic Policy Institute concludes that from 2007-2009, annualized household declines in wealth were 16 percent for the richest fifth of Americans and 25 percent for the remaining four-fifths. The median net worth of black households was $2,200, while the median for white households was $97,900.[11]

In North Carolina, unemployment caused by the recession hit African Americans at much higher rates than whites. At the end of 2007, the unemployment rate for whites in North Carolina was 4 percent and, for blacks, 8.1 percent. By the close of 2010, the jobless rate for white Tar Heels was 7.6 percent, while for black North Carolinians, it had reached a staggering 17.5 percent. We have the seventh highest African American unemployment rate in the country.[12]

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[8] Scholars have also, for example, emphasized different savings patterns for black and white households; increased vulnerability to asset depletion through health care costs; and highly racially-disproportionate rates of incarceration as causes of wealth disparity.
[9] Wolff, *Recent Trends in Household Wealth in the United States*, 11.
[10] Ibid., 19-20.
[11] Sylvia Allegretto, *The State of Working America's Wealth, 2011: Through Volatility and Turmoil, the Gap Widens*, EPI Briefing Paper No. 292 (Washington, DC: Economic Policy Institute, March 23, 2011), 2.
[12] Mary Gable and Algernon Austin, *Distressed North Carolina*, EPI Issue Brief No. 300 (Washington, DC: Economic Policy Institute, April 28, 2011), 1-2.

CFED's national scorecard reports that even on the cusp of the recession, "North Carolina shows the largest increase in asset poverty" in the country.[13] We appear among the bottom fifteen states in net worth, asset poverty, extreme asset poverty, income poverty, and percentage of persons who are unbanked.[14] The intervening news, in short, is not good.

2. The Multifaceted Causes of Racial Wealth Disparity

The strongest, most comprehensive academic research on racial wealth disparity has been done by Melvin Oliver and Thomas Shapiro. Their central work appears in *Black Wealth/White Wealth: A New Perspective on Racial Inequality*, published originally in 1995, but significantly updated in 2006. This complex empirical and theoretical work "demonstrates that the racial wealth chasm cannot be attributed to a single or even a few sources, but is more deeply grounded in contemporary American life."[15] Oliver and Shapiro show that for whites, the principal determinants of net worth are age, income, professional or self-employed status, number of household workers, gender of head of household, and education. Ironically, for African Americans, the main determinants are far fewer: income, the number of workers in a household, and work experience. Increased income translates into dramatically more wealth for whites than blacks. The average black household, when endowed with the same income, age, occupational, educational, and other attributes, reveals a dramatic racial wealth gap.[16]

Like Francine Blau and John Graham earlier,[17] Oliver and Shapiro find, after an array of regression inquiries, that "even if the individual barriers and disadvantages blacks face were leveled tomorrow, about three-quarters of the net worth and net financial assets racial wealth differences would remain."[18] Even differences in

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13 CFED, "2009-2010 Assets and Opportunity Scorecard, State Profile: North Carolina," 1, http://scorecard.cfed.org/state_data/north_carolina.php.

14 Ibid., 2. See also, N.C. Rural Economic Development Center, *Living on the Margins: Rural North Carolina in the Aftermath of the Great Recession* (Raleigh, NC: N.C. Rural Economic Development Center, Feb. 11, 2011), 12. "In North Carolina's 85 rural counties, the number of people in poverty rose by 106,000 between 2007-2009, reaching 800,514, or nearly one resident in five."

15 Melvin L. Oliver and Thomas M. Shapiro, *Black Wealth/White Wealth: A New Perspective on Racial Inequality* (New York: Routledge, 2006), 131.

16 Ibid., 132-35.

17 Francine D. Blau and John W. Graham, "Black-White Differences in Wealth and Asset Composition," *Quarterly Journal of Economics*, 105 (May 1990): 321-39. Blau and Graham found that almost three-quarters of the black-white wealth gap could not be explained; they speculated that differences in intergenerational transfers and, to a smaller extent, barriers to the accumulation of home and business equity might be responsible. Others turn to alternate explanations. James P. Smith ("Racial and Ethnic Differentials in Wealth in the HRS," 1995) reported that it is due, in part, to lower minority incomes, poorer health, and smaller inheritances. Altonji, Doraszelski and Segal ("The Role of Permanent Income and Demographics in Black/White Differences in Wealth," 2001) suggested that differences in saving behavior and rates of return on assets may be more important than intergenerational transfers in explaining the wealth gap.

18 Oliver and Shapiro, *Black Wealth/White Wealth*, 138.

marital status offer only modest explanations of the disparities. If married blacks share income, educational, family, occupation and work experience characteristics with whites, they still see large distinctions in net worth. When black and white single heads of household are compared, results are similar. Regarding wealth, as Cornel West has argued on this and other fronts, "race matters."[19]

3. Race, Wealth and Public Policy

Private wealth, far differently than income, captures inequality that is the product of the past. Academics and activists have, with ample justification, focused on both historical and continuing governmental policies as a huge and overarching basis for wealth disparity.[20] American history has, in no small measure, hinged upon dramatic denials of equality, opportunity, dignity and promise. From slavery to Jim Crow and legally-demanded segregation and marginalization, through discriminatory rules of homestead, land acquisition and development, barriers to credit, profession, education, pensions, business ownership, social benefits, asset security, and innumerable economic possibilities, black Americans were purposefully excluded from material progress during the great bulk of our national life.

Less visible, or less fully acknowledged, policies concerning federally-financed home loan programs, weakened fair housing initiatives, the encouragement of private racial steering and racially-restrictive covenants, the governmental embrace of insurance redlining and segregating transportation programs, and the development of asset-depleting welfare and benefit programs have represented often intentional efforts to marginalize and oppress African Americans even in the post *Brown v. Board of Education* era.

Beyond such instances of overt and facial discrimination, black households now suffer disproportionately under purportedly neutral regimes that favor the economically privileged more broadly, regardless of race. Tax laws, for example, that provide for lower, more favorable rates on capital gains than ordinary income,

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[19] Cornel West, *Race Matters* (Boston, MA: Beacon Press, 1993).

[20] Insight Center for Community Economic Development, *Lifting as We Climb*, 14. "The U.S. has a long history of policies that transferred wealth from people of color to whites, that created specific barriers to wealth accumulation by people of color, and that excluded non-whites from government wealth building programs and incentives. As examples, the Indian Removal Act of 1830 forcibly removed Cherokees from their traditional lands to make room for white settlers. Jim Crow laws kept African Americans out of better paying jobs, quality public education, and business opportunities. The benefits of citizenship, open to Europeans, were forbidden to Asian immigrants. The exclusion of social security coverage for a whole generation of farm workers, laborers, and domestic workers, kept Latino and black elders in poverty. Advantage and disadvantage is passed from generation to generation often with a cumulative effect, thereby contributing to the current racial wealth gap." See also, Insight Center for Community Economic Development, *Laying the Foundation For National Prosperity: The Imperative of Closing the Racial Wealth Gap* (Oakland, CA: Insight Center for Community Economic Development, March 2009), 4-6.

benefit wealthy whites in a massively disproportionate way.[21] Subsidies for pensions and health care programs—given employment patterns—can have similarly discordant effects. The tax deduction of home mortgage interest and local real estate taxes benefits those who buy houses, especially expensive ones. The dramatic reduction, or elimination, of inheritance taxes confers most upon groups able to pass along accumulated wealth in stocks, bonds, financial instruments, and real estate. As Donald Bartlett and James Steele have found, "the rich stay rich by passing on from generation to generation assets that have appreciated greatly in value but upon which they never pay capital gains taxes."[22]

It is impossible, one supposes, to quantify the continuing and residual impact of such discriminatory and often oppressive policies on North Carolinians of color. It is impossible to deny, however, that when it comes to accessing the wealth that creates opportunities in education, business, professional training, health, political power and influence, blacks and whites do not occupy the same terrain.

4. Wealth, Home Ownership and Valuation

One cannot understand the core of racial wealth disparity without a heavy, perhaps even a predominant, focus upon home ownership, segregation and valuation. Our North Carolina wealth study found dramatic differentials between African Americans and whites in home equity. Almost three quarters (73 percent) of white households, but less than half (45 percent) of black households have some home equity. The average white household also holds about $73,000 in home equity compared to $27,000 for African Americans. The home equity gap estimated for North Carolina (.36 of white household equity) is larger than that for the nation as a whole (.49).[23]

It is also clear for both black and white families, but especially for black families,[24] that the home is the largest source of personal wealth.[25] As a result, home equity provides the tightest analytical linkage to our gulfs of wealth inequality. It also powerfully demonstrates the complex interaction of government-fostered

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[21] Mazher Ali, et al., *State of the Dream, 2011: Austerity for Whom?* (United for a Fair Economy, Jan. 14, 2011), vi. Tax breaks for investment income are overwhelmingly received by whites. Blacks earn 13 cents on the dollar and Latinos receive 8 cents on the dollar compared to whites for dividend income.
[22] Donald L. Bartlett and James B. Steele, *America: Who Really Pays the Taxes?* (New York: Touchstone, 2003), 335.
[23] Center on Poverty, Work and Opportunity, "Racial Wealth Disparities in North Carolina," 6.
[24] Oliver and Shapiro, *Black Wealth/White Wealth*, 146. "Home equity is more important in black wealth portfolios than it is for whites. It constitutes 63 percent of all assets held by blacks, thus biases in mortgage markets clearly and severely depress the total assets in the black community." See also, Wolff, *Recent Trends in Household Wealth in the United States*, 23. "In 2001, the gross value of principal residences formed 46.3 percent of the gross assets of black households and only 26.9 percent that of white households."
[25] Center on Poverty, Work and Opportunity, "Racial Wealth Disparity in North Carolina," pp. 6-10; Oliver and Shapiro, *Black Wealth/White Wealth*, 9. "Home ownership is without question the single most important means of accumulating assets."

discrimination, segregating practices in the private market and personal choices that contribute manifestly to racial wealth disparity.

Legally mandated or government sustained residential racial segregation was for most of our history the norm, at least for North Carolina and the rest of the South. Scholars have thoroughly documented subsequent federal housing, tax and transportation policies that effectively reinforced residential segregation through the late 1960s.[26] Though these policies may have officially ended decades ago, "an extremely high degree of segregation persists in America's residential communities today."[27] Continuing segregation is not necessarily a choice that African Americans make freely: it is, studies find, significantly related to patterns of "racial steering, redlining, hostile white attitudes, and lender discrimination."[28] For many North Carolinians, seeking a tie to quality public education creates "an intimate connection between housing, schools and wealth."[29] Housing choices are potently married to concerns for the educational opportunities that living in a certain neighborhood provides. These choices often maintain a racial segregation in which white wealth increases as black wealth stagnates.[30]

Oliver and Shapiro identify three powerful trends in housing purchase, finance and evaluation that foster racial differentials in wealth. First, access to credit—essential to the purchase of housing—has been long demonstrated to be racially problematic.[31] Second, on average, the cost of borrowing for African Americans can exceed that for white households. Federal SIPP data suggest, "even when one controls for other variables, race proves to be a powerful determinant of interest rates."[32] Finance companies, predatory lenders and other less desirable forms of credit operate disproportionately in minority communities.[33] Young African

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[26] Oliver and Shapiro, *Black Wealth/White Wealth*, 11-41; Dalton Conley, "Decomposing the Black-White Wealth Gap: The Role of Parental Resources, Inheritance and Investment Dynamics," *Sociological Inquiry*, 71 (Winter 2001): 39-66.
[27] Oliver and Shapiro, *Black Wealth/White Wealth*, 139.
[28] Ibid. See also, Joe R. Feagin and Melvin P. Sikes, *Living With Racism: The Black Middle-Class Experience* (Boston, MA: Beacon Press, 1994).
[29] Oliver and Shapiro, *Black Wealth/White Wealth*, 254; Thomas M. Shapiro, *The Hidden Cost of Being African American: How Wealth Perpetuates Inequality* (New York: Oxford University Press, 2004)
[30] Shapiro, *The Hidden Cost of Being African American*.
[31] Federal Reserve Bank of Boston, *Closing the Gap: A Guide to Equal Opportunity Lending* (Boston, MA: Federal Reserve Bank of Boston, 1993); Glenn B. Canner and Dolores S. Smith, "Expanded HMDA Data of Residential Lending: One Year Later," *Federal Reserve Bulletin*, 78 (November 1992): 801-824.
[32] Oliver and Shapiro, *Black Wealth/White Wealth*, 142-144; Thomas M. Shapiro, "Race, Homeownership and Wealth," *Washington University Journal of Law and Policy*, 20 (2006): 53-74, 67. "Blacks pay interest rates of approximately one third of a percent higher than whites, or about $12,000 more for the average American home over a 30 year mortgage."
[33] California Reinvestment Coalition, et al., *Paying More for the American Dream IV: The Decline of Prime Mortgage Lending in Communities of Color* (May 2010), www.nedap.org/resources/documents/PayingMoreIV_Final.pdf; James H. Carr and Lopa Kolluri, *Predatory Lending: An Overview* (Fannie Mae Foundation, 2001), http://www.knowledgeplex.org/kp/text_document_summary/article/relfiles/hot_topics/Carr-Kolluri.pdf. Carr and Kolluri report that subprime loans are five times more likely in black neighborhoods than white ones. See also, Debbie Gruenstein Bocian, Wei Li and Keith S. Ernst,

American households are also far less likely to be able to draw on family or parental assistance in purchasing a first house, often leading to higher interest costs.[34] Third, homes of similar design, size and appearance cost more—and appreciate much more rapidly—in white communities than in black or highly integrated communities.[35] Accordingly, race plays a major role in housing appreciation even when "non-race-related factors affecting home value are taken into account."[36] Oliver and Shapiro estimate that discrimination in housing markets, writ large, "costs the current generation of black homeowners … over" 90 billion dollars.[37]

Such calculations may, of course, be artificial. Still, they suggest the broader point that continuing patterns of policy and practice have a dramatic impact on the amassed wealth of African Americans in North Carolina, resulting in a sort of "segregation tax." As Shapiro put it, the "empirically accurate American wealth narrative is not simply about individual hard work, discipline, and savings; notably, it is also about structured homeownership opportunities, real estate markets, government programs encouraging homeownership, and residential segregation."[38]

New studies also indicate that during the recession, access to prime credit for mortgages and refinancing declined twice as much in minority communities in seven key metropolitan areas as it did in white neighborhoods, decreasing by 60 percent in communities of color, compared to 28 percent in white areas.[39] Foreclosures have fallen more heavily on homeowners of color.[40] A study of four leading lenders further reveals that during the foreclosure crisis, refinancing efforts were far more heavily concentrated in white communities, again raising the relative cost of financing to racial minorities.[41]

Foreclosures by Race and Ethnicity: The Demographics of a Crisis, CRL Research Report (Durham, NC: Center for Responsible Lending, June 18, 2010), 16. "African-American and Latino borrowers were particularly vulnerable" to subprime mortgages, as "originators targeted traditionally underserved communities for subprime loans and steered borrowers of color to higher cost loans. Indeed, court cases and information provided by former employees of subprime lenders describe the systematic targeting of African-American neighborhoods and other communities of color."

[34] Shapiro, "Race, Homeownership and Wealth," 67. "Nearly one-half of all white homeowners report that they received significant financial assistance from their families. In sharp contrast, seven out of eight African-American homeowners purchased homes on their own."

[35] Shapiro, "Race, Homeownership and Wealth," 68. "On average, homes owned by whites appreciate in value approximately $28,000 more than those owned by blacks. Moreover, homes lose about 16 percent of their value when located in neighborhoods that are more than 10 percent black."

[36] Oliver and Shapiro, *Black Wealth/White Wealth*, 150.

[37] Ibid., 150-153.

[38] Shapiro, "Race, Homeownership and Wealth," 59.

[39] California Reinvestment Coalition, et al., *Paying More for the American Dream IV*, 3.

[40] Bocian, Li and Ernst, *Foreclosures by Race and Ethnicity*, 10. "We estimate that 11 percent of African-American homeowners and 7 percent of non-Hispanic white homeowners already have lost or are at imminent risk of losing their home." Even "within income categories, the estimated share of completed foreclosures affecting African-Americans is disproportionate compared to their share of originations; while high income African-Americans received 6.4 percent of the originations between 2005-2008, their share of completed foreclosures is 9.9 percent."

[41] California Reinvestment Coalition, et al., *Paying More for the American Dream IV*, 6.The top four bank holdings companies—Bank of America, Citigroup, JP Morgan Chase, and Wells Fargo—increased their prime lending in predominately white communities from 2006-2008 by 32 percent

5. Intergenerational Wealth and Wealth Transfers

Scholars have also emphasized the importance of intergenerational transfers in the development and accumulation of wealth. Such resources can provide "cultural capital"—education, training, access to networks of opportunity and the like—to set the groundwork for financial success and independence. At various stages of life, these contributions can also provide powerful sustenance to subsequent wealth development. College graduates, for example, who are able to start their work lives without significant educational loans enjoy substantial advantage. Parents who are able to offer young couples strong economic assistance when they marry or attempt to purchase their first house aid dramatically in wealth development. And assets bequeathed at death, often coming to the beneficiaries in mid-career, add vitally to resource portfolios.

For obvious historical reasons, white and African American families face different realities concerning inheritance. Segregation blocked access to education, work, decent wages and other assets for the parents and grandparents of black North Carolinians until at least the late 1960s. Relegated, as they were, to low wage jobs, relatively few blacks accrued significant savings. Thomas Shapiro has recently stated that less than eight percent of African American families inherit wealth, and when they do, the average inheritance is $900.[42]

More broadly, nearly three-quarters of black children (about double the rate for whites) grow up in households holding no financial assets. Ninety percent of African American children come from households with insufficient financial reserves to endure three months of no income without falling into poverty (four times the rate for whites).[43] Unsurprising then, on average, inheritance from African American families is dramatically lower than from white families.

Additionally, these divergent wealth patterns also play a significant role in diminished patterns of social mobility for African American families. Blacks display a "comparative incapacity to transmit high occupational status to their offspring," compared to white families.[44] Even as blacks climb higher up the income ladder, they accumulate fewer assets than equally mobile whites. Asset poverty, therefore, is more commonly passed from one generation to the next.[45]

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while, in combination, they decreased prime refinance lending in minority communities by 33 percent.

[42] Tim Grant, "Study Shows Wealth Inequality Between the Races Has Skyrocketed," *Pittsburgh Post-Gazette*, May 18, 2010.

[43] Oliver and Shapiro, *Black Wealth/White Wealth*, 90. See also, Robert B. Avery and Michael S. Rendall, "Lifetime Inheritances of Three Generation of Whites and Blacks," *American Journal of Sociology*, 107 (March 2002): 1300-1346. Avery and Rendall predict that the gap in lifetime inheritances will be much larger for the baby boom generation than previous generations.

[44] Oliver and Shapiro, *Black Wealth/White Wealth*, 170.

[45] Oliver and Shapiro, *Black Wealth/White Wealth*, 165-169.

Moreover, neither parental wealth nor income is any guarantee against slippage. While 56 percent of white children raised by parents in the top wealth quartile stay there as adults, only 37 percent of African American children raised by parents in the same quartile maintain a hold at the top.[46] White children are not only more likely to stay at the top, they also have a greater chance of climbing from the bottom. Of white children born to parents in the lowest wealth quartile, only 35 percent remain there, compared to 44 percent of similarly situated black children.[47]

There is evidence, as well, that these inheritance-based wealth differentials have been widened by decisions made in the wake of the recent recession. Blacks are more likely than whites to have invaded their savings, pension plans and retirement programs in order to weather the threatening economic storms.[48]

6. Employment, Entrepreneurship and Investment Patterns

Employment, entrepreneurship and investment patterns also have a significant impact on racial wealth disparity. Income has a direct and positive link to wealth. In 2008, the median hourly wage for black, male full-time workers was $14.90. For their white counterparts, it was $20.84.[49] Whites with a high school diploma made $17.96, blacks earned $13.30—74 cents to every dollar received by whites. For those with an associate degree, or some college education, the ratio of black to white income remains 74 percent. Only at the advanced degree level does the median wage gap narrow to 83 percent (Figure 2).[50]

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[46] Dalton Conley and Rebecca Glauber, *Wealth Mobility and Volatility in Black and White* (Washington, DC: Center for American Progress, July 2008), 11, http://www.americanprogress.org/issues/2008/07/pdf/wealth_mobility.pdf.

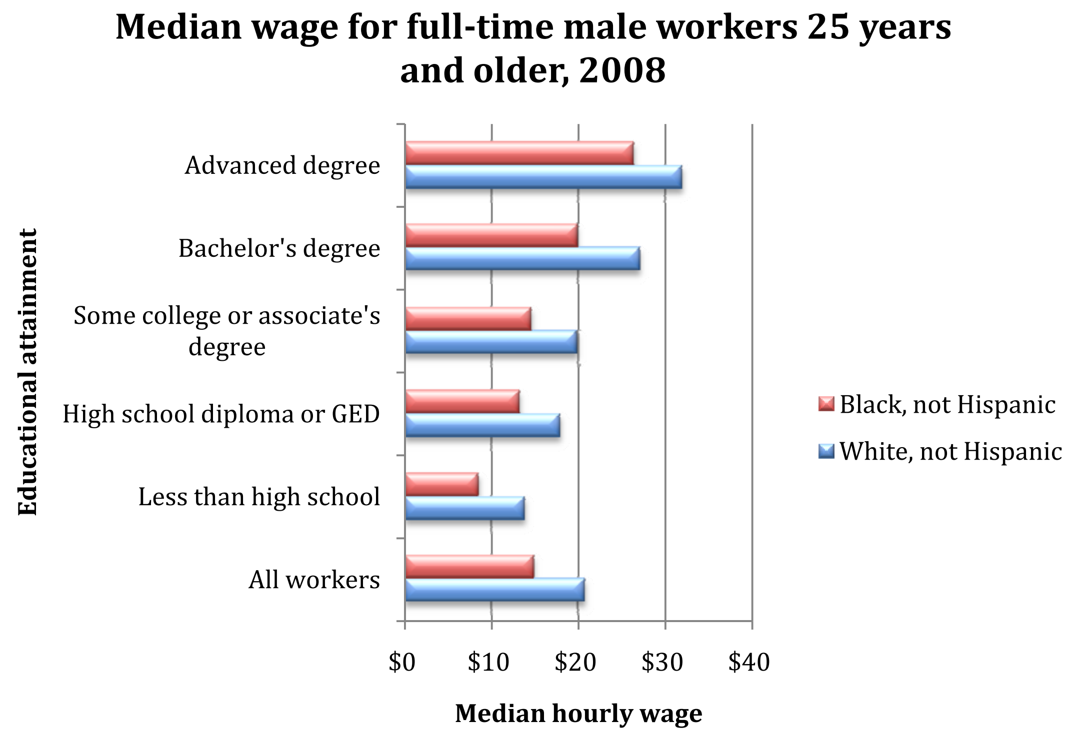
[47] Ibid. See also Julia B. Isaacs, Isabel V. Sawhill and Ron Haskins, *Getting Ahead or Losing Ground: Economic Mobility in America* (Washington, DC: The Brookings Institution, 2008), 76. This study of the effect of parental income on intergenerational mobility reveals much the same pattern. Of black children born to parents in the second highest income quintile (researchers found insufficient observations in the top quintile to report), 46 percent fall to bottom two quintiles, while only 22 percent of white children make this descent. The disparity holds across income levels: in the middle income quintile, only 17 percent rise to a higher quintile, while 69 percent fall (with 45 percent descending to the bottom). By way of comparison, 37 percent of white children rise to a higher quintile and 37 percent fall. Fifty-four percent of African American children born to parents in the bottom income quintile, on the other hand, stay there, compared to 31 percent of white children.

[48] Merrillyn J. Kosier, *2010 Black Investor Survey: Saving and Investing Among Higher Income African-American and White Americans* (Ariel Investments, July 21, 2010), 6. As a result of the recession, almost half of blacks, compared to 31 percent of whites are reported to have invaded their savings; 27 percent of African Americans participating in 401(k) plans have reduced their contributions, compared to 16 percent of whites. See also, Algernon Austin, "Recession Takes a Slice Out of Retirement," Economic Policy Institute, www.epi.org/economic_snapshots/entry/recession_takes_a_slice_out_of_retirement_savings/. Austin describes a AARP study finding that 26 percent of African Americans made early withdrawals on retirement funds, compared to 18 percent for all respondents.

[49] Darrick Hamilton, Algernon Austin and William Darity, Jr., *Whiter Jobs, Higher Wages: Occupational Segregation and the Lower Wages of Black Men*, EPI Briefing Paper No. 288(Washington, DC: Economic Policy Institute, Feb. 28, 2011), 2.

[50] Ibid.

Figure 2



Source: EPI Analysis of CPS data

African Americans experience much higher rates of unemployment than whites. In good times and bad, black unemployment rates consistently are about twice that for whites (Figure 3). African Americans have higher joblessness rates than any other racial or ethnic group across all levels of educational attainment[51] and, if unemployed, they tend to remain jobless for longer periods than unemployed workers from other groups.[52] Black underemployment—the indicator that measures the broad group of people who have been unable to find full-time work and are either working part-time or not at all—climbed from 14.5 percent at the beginning of the recession[53] to 24.5 percent in October 2010 (Figure 4).[54]

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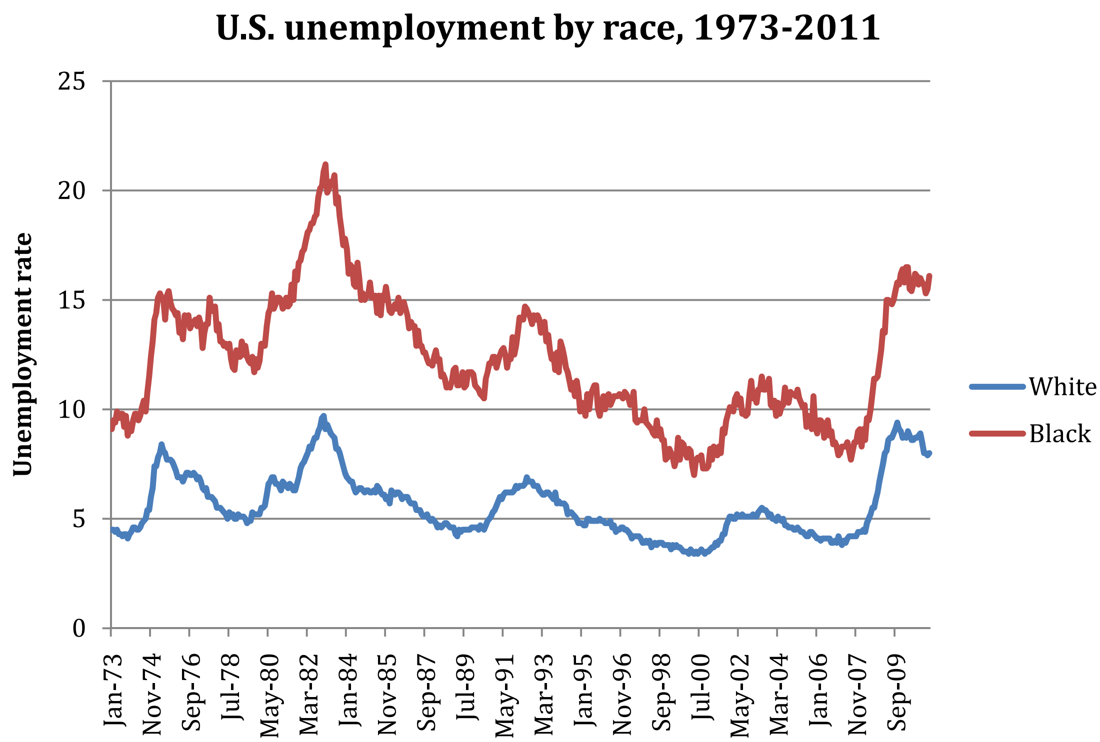
[51] U.S. Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey.

[52] U.S. Bureau of Labor Statistics, *Labor Force Characteristics by Race and Ethnicity, 2009*, Report 1026 (Washington, DC: U.S. Department of Labor, August 2010), www.bls.gov/cps/cpsrace2009.pdf. In 2009, the median duration of unemployment for Blacks was 19.7 weeks, compared with 16.6 weeks for Asians, 14.2 weeks for Whites, and 13.5 weeks for Hispanics (Table 11). Blacks also have "considerably lower earnings than Asians and Whites," even within occupations. U.S. Bureau of Labor Statistics, *Labor Force Characteristics by Race and Ethnicity, 2009*, 3.

[53] Kathryn Anne Edwards, "Minorities, less-educated workers see staggering rates of underemployment," Economic Policy Institute, Economic Snapshot, Nov. 4, 2009.

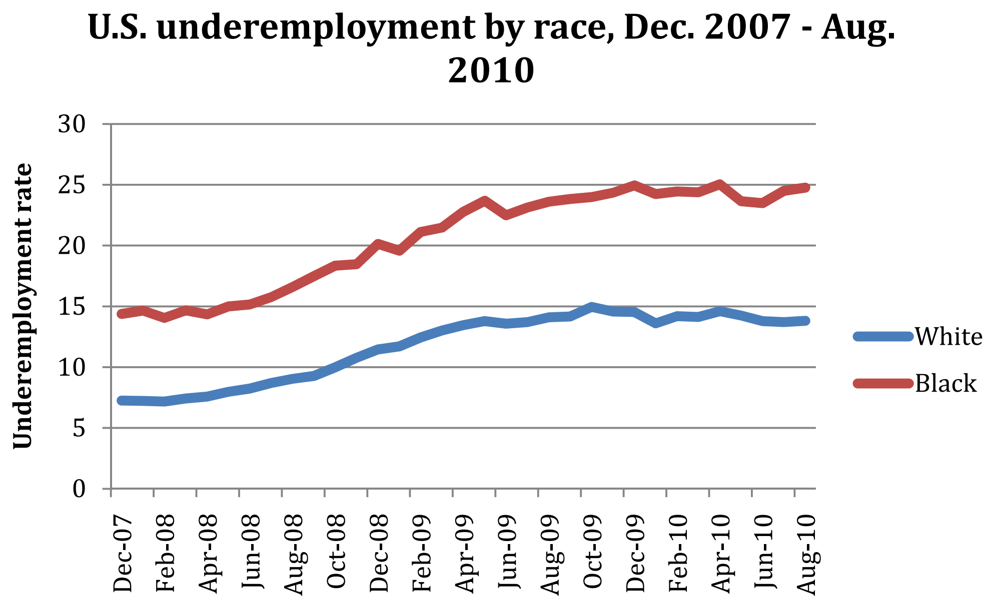
[54] Economic Policy Institute, Economy Track. "Underemployment rate," http://www.economytrack.org/underemployment.php.

Figure 3



Source: Bureau of Labor Statistics, CPS

Figure 4

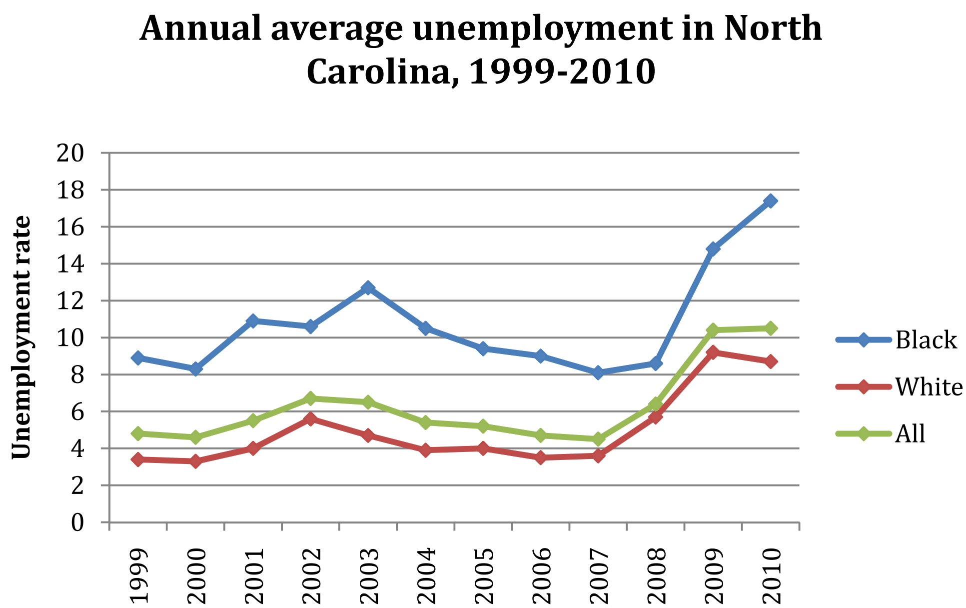


Source: EPI analysis of BLS data

State statistics tells a similar story: the black unemployment rate remained high throughout the 2000s (Figure 5). The decade began with white unemployment at 3.3 percent—and black unemployment at 8.3 percent. The black unemployment rate rapidly rose above ten percent for the first half of the decade. Dropping slightly in 2007-08, it skyrocketed to 17.4 percent in 2010. At the close of 2010, average black unemployment for North Carolina in 2010 was stubbornly stuck at 17.5 percent, declining only .1 percent from the first quarter of the year. In contrast, white unemployment had declined 1.5 percentage points between the same quarters, ending the year at 7.6 percent.[55]

[55] Gable and Austin, *Distressed North Carolina*, 2.

Figure 5



Source: Bureau of Labor Statistics, CPS

Nationally, African Americans face a disparity in income across all occupational groups: a difference that persists when educational attainment is held constant.[56] In addition, an income penalty is levied on occupations in which African American men are overrepresented, given their proportion in the population. In these occupations, the average annual wage is $37,005. For underrepresented occupations, on the other hand, the annual average wage is $50,533.[57] In fact, one study concluded that a seven percentage point decrease in the proportion of black men is associated, on average, with a $10,000 increase in the annual wage of an occupation.[58]

Black men are most severely underrepresented in construction, extraction and maintenance occupations—occupations with relatively low educational requirements that offer wages relatively higher than those for service occupations. In contrast, they are strongly overrepresented in service occupations, which tend to pay lower wages.[59] Such jobs are also less likely to offer health care and pension benefits.[60]

[56] Hamilton, Austin and Darity, Jr., *Whiter Jobs, Higher Wages*, 2.
[57] Ibid., 3.
[58] Ibid.
[59] Ibid., 3-4. The average annual wage across all service occupations is $28,962; in service occupations in which blacks are overrepresented annual earnings are even lower at $25,552.
[60] Oliver and Shapiro, *Black Wealth/White Wealth*, 84. See also, Insight Center for Community Economic Development, *Lifting as We Climb*, 16-17.

In North Carolina, scholars have concluded that the state's broad and wrenching economic shifts from agriculture, manufacturing and textiles have had disproportionate effects on African Americans.[61] Studies have found black workers have been laid off in disproportionate numbers to their composition in the work force.[62] For example, the Pillowtex closing in 2003, which was the largest layoff in North Carolina history, had a "particularly severe impact" on racial minorities: having won a large discrimination settlement against Cannon Mills in the early 1980s (prior to its purchase by Pillowtex), blacks had finally acquired higher-paying jobs within the plant by the 1990s.[63] Yet, three years after the textile plant closure in Kannapolis, only 60 percent of the 4,800 workers laid off reported having found another job, and, of those that did, half earned less than $22,000 per year.[64] Rural black female workers have also been found to suffer disproportionate job losses.[65]

North Carolina also has the lowest unionization rate in the United States at 3.2 percent of the employed workforce in 2010.[66] Nationally, among full-time wage and salary workers, union members had median weekly earnings of $917, while those not represented by unions had median weekly earnings of $717.[67] The newly-released "State of the North Carolina Workforce, 2011-2020" finds, unsurprisingly, that the recession accelerated the state's shift to a knowledge-based economy, leaving many workers, incumbent and dislocated alike, unprepared for the transition and facing severe challenges in adapting to altered economic realities.[68]

Historically, African Americans have been self-employed at only about a third of the rate of whites. Nationally, four in ten black-owned businesses operate in the health care and social assistance; and repair, maintenance, personal and laundry services

[61] Peter A. Coclanis and Louis M. Kyriakoudes, "Selling Which South? Economic Change in Rural and Small-Town North Carolina in an Era of Globalization, 1940-2007," *Southern Cultures* 13 (Winter 2007): 86-102, 93. "Until the 1960s, few African Americans, rural or urban, worked in textile manufacturing. In 1960, for example, only 3 percent of rural African Americans worked in the industry. By 1970, however, 21 percent of black non-metropolitan workers labored in textiles; the figure for non- metropolitan whites stood at only 16 percent."
[62] Alfred J. Field, Jr., and William R. Winfrey, "Job Displacement and Reemployment in North Carolina: The Relative Experience of the Black Worker," *The Review of Black Political Economy* 25 (March 1997): 57-75, 58. Authors note that in their study of over 33,000 displaced or laid-off workers, blacks were disproportionately likely to be laid off and, on average, were forced into a "lower wage environment upon reemployment relative to their white counterparts."
[63] Timothy J. Minchin, "'It knocked this city to its knees': the closure of Pillowtex Mills in Kannapolis, North Carolina and the decline of the US textile industry," *Labor History* 50 (August 2009): 287-311.
[64] Minchin, "'It knocked this city to its knees,'" 295.
[65] Field and Winfrey, "Job Displacement and Reemployment in North Carolina," 60-67, 67. "[T]he difference in the unemployment experience of black females is almost entirely due to differential treatment within an industry/occupation grouping."
[66] U.S. Bureau of Labor Statistics, Economic News Release, "Table 5. Union affiliation of employed wage and salary workers by state," http://www.bls.gov/news.release/union2.t05.htm.
[67] U.S. Bureau of Labor Statistics, "Union affiliation data from Current Population Survey, 2010," data retrieval at http://www.bls.gov/webapps/legacy/cpslutab2.htm.
[68] North Carolina Commission on Workforce Development, *State of the North Carolina Workforce 2011-2020, "Preparing North Carolina's Workforce and Businesses for the Global Economy"* (North Carolina Commission on Workforce Development, June 2011).

sectors.[69] In 2007, there were 83,900 black owned firms in North Carolina, but 78,299 were non-employer entities (sole proprietorships or partnerships).[70] Our black-owned businesses are concentrated in transportation, warehousing, healthcare and social assistance. In 2007, they generated $5.4 billion in receipts and $1.2 billion in payroll. Over three-quarters of these entities, however, had revenues of less than $25,000. They comprise 10.5 percent of the firms in North Carolina, but produce less than one percent of the revenues.[71] And the number of minorities who were self-employed in North Carolina dropped 14 percent between 2008-2009, with the onset of recession.[72]

Finally, at every income and educational level, the percentage of black and Hispanic households that own risky, higher-yielding assets is considerably smaller than the percentage of white households holding such investments (Figures 6 and 7).[73] Generally, wealthier households hold "larger percentages of their assets in riskier forms" of investment.[74] African Americans who have "a margin of funds to invest are more likely to prefer safer assets such as checking accounts or real estate than are whites."[75] Among "white college graduates, almost 85 percent own risky assets, compared with barely half of black households and less than half of Hispanic households."[76] Researchers have concluded, therefore, that lower rates of stock ownership have prevented black and Hispanic families from benefitting as much as white families from economic expansions and stock market growth.[77]

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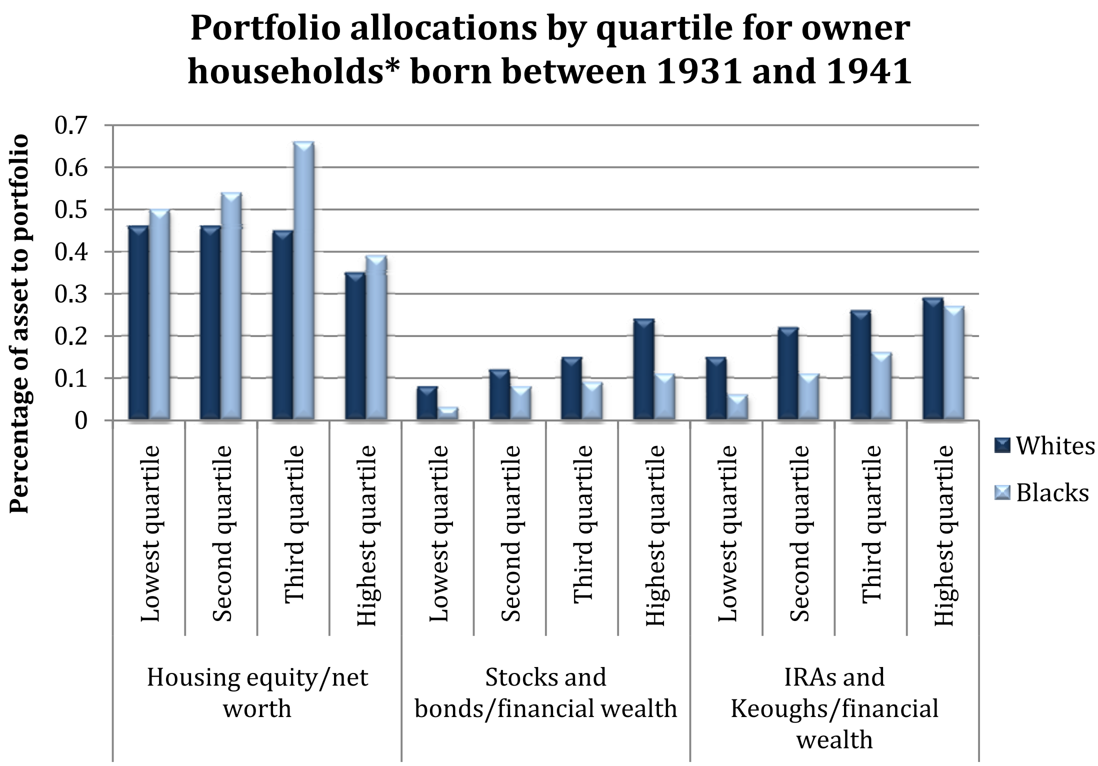
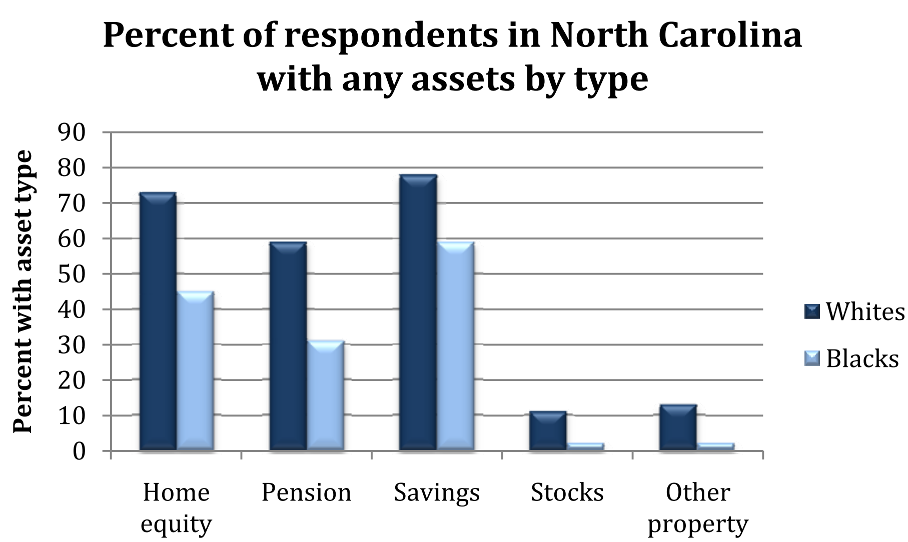
[69] U.S. Census Bureau, Newsroom, "Census Bureau Reports the Number of Black-Owned Businesses Increased at Triple the National Rate," Feb. 8, 2011, http://www.census.gov/newsroom/releases/archives/business_ownership/cb11-24.html.
[70] U.S. Census Bureau, Economic Census, "Survey of Business Owners - Black Owned Firms: 2007," Table 6, http://www.census.gov/econ/sbo/get07sof.html?13.
[71] Ibid.
[72] U.S. Small Business Administration, Office of Advocacy, *Small Business Profile: North Carolina* (U.S. Small Business Administration, February 2011), 1, http://www.sba.gov/sites/default/files/files/nc10.pdf.
[73] U.S. Social Security Administration, "Racial and Ethnic Differences in Wealth and Asset Choices," by Sharmila Choudhury, *Social Security Bulletin* 64 (2001/2002).
[74] Ibid.
[75] Ibid.
[76] Ibid.
[77] Ibid.

Figure 6



Source: Social Security Administration analysis of Wave 1 of the Health Retirement Study
* Owner households are those that have net worth or financial wealth.

Figure 7



Source: UNC Poverty Center analysis of SIPP data

7. Family Structure

Recently released census data indicates, for the first time, that married couples have dropped below half of all American households.[78] In 1950, 78 percent of U.S. households were married couples. Last year, it was 48 percent.[79] Plus, only about a quarter of households were married couples with children, compared with 43 percent sixty years ago.[80] The marriage rate of black women is significantly lower than that of white women.[81] The overall rate of children born out of wedlock is now almost 40 percent nationally.[82] It is even higher, however, for black and Hispanic women, from 50-70 percent.[83] A child born to a single mother is six times as likely to live in poverty as a child born to a married couple.[84] Being married, and staying married, has been demonstrated to increase wealth markedly.[85] Differences in family structure, therefore, contribute to racial wealth disparities. Still, scholars have found that married blacks—sharing income, educational, family, occupation and work experience with whites—still face large differentials in net worth.[86] Similarly, if black and white single heads of households are compared, powerful disparities remain.[87]

8. Conclusion

As we have argued, the causes of racial wealth disparity are multiple, complex and mutually reinforcing. They reflect the broad divisions and polarizations within our society. They are also inescapably linked to the challenges and shortcomings of our racial and economic histories. Very frequently, they flow not merely from private choices and attainments, but from formal government policies and programs, and widely embraced private arrangements. A serious effort to combat them would need to be both ambitious and multifaceted. It would need, as well, to be rooted in the recognition that it is impossible to square our bold pronouncements of equal justice and dignity with the harsh and contradicting realities of radical racial wealth disparity.

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[78] Sabrina Tavernise, "Married Couples Are No Longer a Majority, Census Finds," *New York Times*, May 26, 2011.
[79] Ibid.
[80] Ibid.
[81] Daniel Schneider, "Wealth and the Marital Divide," *American Journal of Sociology* (forthcoming): 3-4. The marriage rate of white women aged 25-29 was 68 percent while that of similarly aged black women significantly lower, at 38 percent.
[82] Joyce A. Martin, Brady E. Hamilton and Paul D. Sutton, et al., "Births: Final Data for 2008," *National Vital Statistics Report* 59 (Dec. 8, 2010), 8.
[83] Ibid.
[84] Heritage Foundation, The Foundry, "Marriage Goes Down, Poverty Goes Up," October 1, 2010, http://blog.heritage.org/2010/10/01/marriage-goes-down-poverty-goes-up/.
[85] Associated Press, "Study: Marriage builds wealth and divorce destroys it," *USA Today*, January 8, 2006, http://www.usatoday.com/news/nation/2006-01-18-marriagewealth_x.htm
[86] Oliver and Shapiro, *Black Wealth/White Wealth*, 124.
[87] Ibid.