



## **What We Get Wrong About Closing the Racial Wealth Gap**

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## Introduction

The racial wealth gap is large and shows no signs of closing. Recent data from the Survey of Income and Program Participation (2014) shows that black households hold less than seven cents on the dollar compared to white households.<sup>1</sup> The white household living near the poverty line typically has about \$18,000 in wealth, while black households in similar economic straits typically have a median wealth near *zero*. *This means, in turn, that many black families have a negative net worth.* (Hamilton et al. 2015).

At the other end of America's economic spectrum, black households constitute less than 2 percent of those in the top one percent of the nation's wealth distribution; white households constitute more than 96 percent of the wealthiest Americans. Moreover, even among the nation's wealthiest households, extreme differences persist on the basis of race:

The 99th percentile black family is worth a mere \$1,574,000 while the 99th percentile white family is worth over 12 million dollars. This means over 870,000 white families have a net worth above 12 million dollars, while, out of the 20 million black families in America, fewer than 380,000 are even worth a single million dollars. By comparison, over 13 million of the total 85 million white families are millionaires or better (Moore and Bruenig 2017).<sup>2</sup>

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<sup>1</sup> Data from the Federal Reserve Board's Survey of Consumer Finances for 2016 indicate that the median black household has ten cents for every dollar held by the median white household, still a staggering disparity. The Survey of Consumer Finances oversamples households at the upper end of the income distribution while the Survey of Income and Program Participation oversamples households at the lower end of the income distribution. Regardless which data set is used if the household car is removed from the net worth calculation, the median black household has only about one cent per dollar held by the median black household (Moore and Bruenig 2017).

<sup>2</sup> The statistics reported here are drawn from the 2016 round of the Survey of Consumer Finances.

Blacks, while constituting just under thirteen percent of the nation's population, collectively own less than three percent of the nation's total wealth (Moore 2015).

Patently, wealth is far more unequally distributed than income. While income primarily is earned in the labor market, wealth is built primarily by the transfer of resources across generations, locking-in the deep divides we observe across racial groups (Shapiro 2004, Gittleman and Wolff 2004, Hamilton and Darity 2010).

In this report, we address ten commonly held myths about the racial wealth gap in the United States. *We contend that a number of ideas frequently touted as “solutions” will not make headway in reducing black-white wealth disparities. These conventional ideas include greater educational attainment, harder work, better financial decisions, and other changes in habits and practices on the part of blacks. While these steps are not necessarily undesirable, they are wholly inadequate to bridge the racial chasm in wealth.*

These myths support a point of view that identifies dysfunctional black behaviors as the basic cause of persistent racial inequality, including the black-white wealth disparity, in the United States. We systematically demonstrate here that a narrative that places the onus of the racial wealth gap on black defectiveness is false in *all* of its permutations.

We challenge the conventional set of claims that are made about the racial wealth gap in the United States. We contend that the cause of the gap must be found in the structural characteristics of the American economy, heavily infused at every point with both an inheritance of racism and the ongoing authority of white supremacy.

*As a result, blacks cannot close the racial wealth gap by changing their individual behavior –i.e. by assuming more “personal responsibility” or acquiring the portfolio management insights associated with “financially literacy” – if the structural sources of racial inequality remain unchanged.* There are no actions that black Americans can take unilaterally that will have much of an effect on reducing the racial wealth gap. For the gap to be closed, America must undergo a vast social transformation produced by the adoption of bold national policies, policies that will forge a way forward by addressing, finally, the long-standing consequences of slavery, the Jim Crow years that followed, and ongoing racism and discrimination that exist in our society today.

*Our report indicates that closing the racial wealth gap requires an accurate assessment of the causes of the disparity and imaginative action to produce systemic reform and lasting change.*

Addressing racial wealth inequality will require a major redistributive effort or another major public policy intervention to build black American wealth. This could take the form of a direct race-specific initiative like a dramatic reparations program tied to compensation for the legacies of slavery and Jim Crow, and/or an initiative that addresses the perniciousness of wealth inequality for the entire American population, which could disproportionately benefit black Americans due to their exceptionally low levels of wealth. Indeed, the two strategies -- reparations for America’s record of racial injustice or the provision of the equivalent of a substantial trust fund for every wealth poor American—need not be mutually exclusive.

**In what follows, we come to grips with the ten most important, widely held myths about closing the racial wealth gap.**

**Myth 1: Greater educational attainment or more work effort on the part of blacks will close the racial wealth gap.**



A common-sense hypothesis ascribes disparities in wealth mainly to differences in the level of education. A college degree is associated with higher earnings and more stable employment, even in times of economic crisis (Day and Newburger, 2002; Chung, Davies, and Fitzgerald, 2010). Families with college-educated heads appear to accumulate more wealth than families with heads with lower levels of education over a lifetime. Therefore, higher education often has been touted as the “great equalizer”, as a mechanism to reduce the wealth gap between whites and blacks. According to this logic, we would expect blacks and whites with similar levels of education to display comparable levels of wealth.

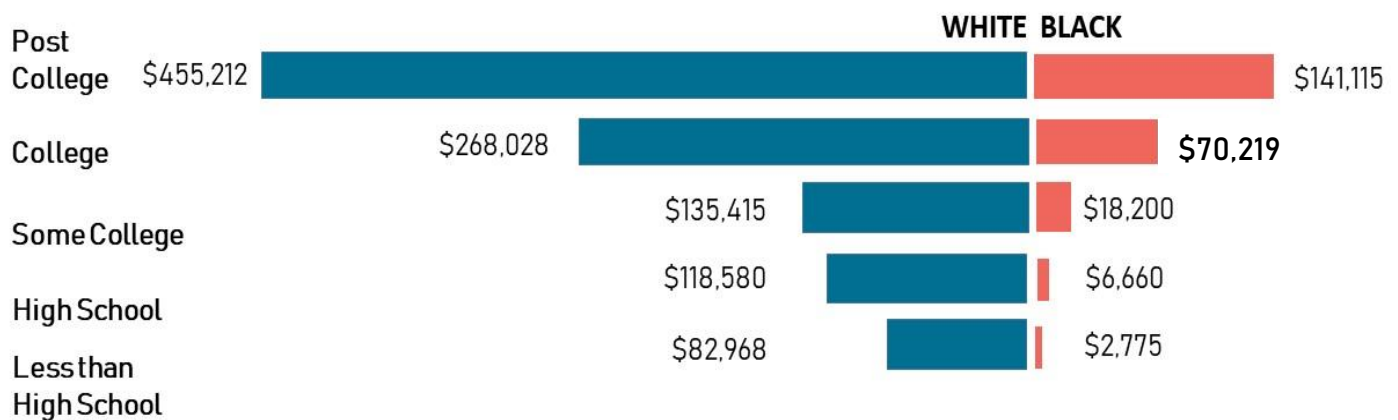
Figure 1 summarizes our findings when we compare wealth levels for heads of households with the same educational attainment across racial groups. Both for blacks

and whites, median household wealth increases as heads obtain higher levels of education. However, it is apparent that for blacks getting a college, or a graduate degree is far from sufficient to close the wealth gap.

At every level of educational attainment, black families' median wealth is substantially lower than their white counterparts. *White households with a bachelor's degree or post-graduate education (such as with a Ph.D., MD, and JD) are more than three times as wealthy as black households with the same degree attainment.*

*Moreover, on average, a black household with a college-educated head has less wealth than a white family whose head did not even obtain a high school diploma.* It takes a post-graduate education for a black family to have comparable levels of wealth to a white household with some college education or an associate degree (Hamilton et al. 2015 and Meschede et al. (2017), who use the Panel Study of Income Dynamics).

Figure 1: Median Household Net Worth by Race and Education



Source: Authors calculations, Survey on Income and Program Participation (SIPP) 2014.

Note: Many of these figures were updated from a prior report entitled *Umbrellas Don't Make it Rain: Why Studying Hard and Working Hard Isn't Enough for Black Americans* (Hamilton et al. 2015).

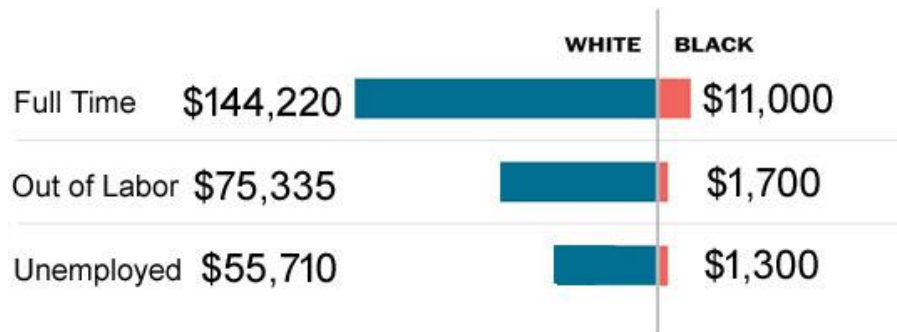
Furthermore, low family wealth can have an adverse effect on the next generation's educational attainment. Family wealth is a predictor of both college attendance and college completion (Meschede et al. 2017). Black students are more likely to take on student loans and accumulate student loan debt, and they are more likely than white students to drop-out of a university because of financial concerns. Ironically, their wealth position could deteriorate because of their intense motivation to pursue higher education (Shapiro et al 2013).

Another commonly held misconception is that black families have a cultural predisposition to under-value education (Loury 1985, Ogbu 1978). Black parents are alleged to invest insufficiently in their children's education. However, the best evidence indicates that black families, controlling for household type and socioeconomic status, tend to be more supportive than white families of their children's education through direct financial support. *Black parents who provide some support for their children's higher education have two-thirds of the median net worth of white parents who provide no support for their children's higher education.* (Nam et al., 2015). For given levels of household income, parental educational attainment, and/or parental occupational status, black youth also get more years of schooling and acquire more credentials than white youth whose parents have a similar status (Mason 1997, Mangino 2010).

While education does not appear to be the great equalizer, it could be argued, alternatively, that hard work can close the wealth gap. Since blacks face a higher unemployment rate than whites at every level of education (Jones and Schmitt, 2014), the difference in wealth ultimately could be due to the difference in employment status. If that were the case, we would observe similar levels of wealth for blacks and whites with similar employment statuses.

But Figure 2 contradicts such an expectation. As one would expect, the median household wealth is higher for employed families than for unemployed families in both races. However, white households with an employed head have more than ten times higher wealth than similar black households. *Furthermore, white households with an unemployed head have a higher net worth than black households with a head who is working full time.*

Figure 2: Median Household Net Worth by Race and Employment Status



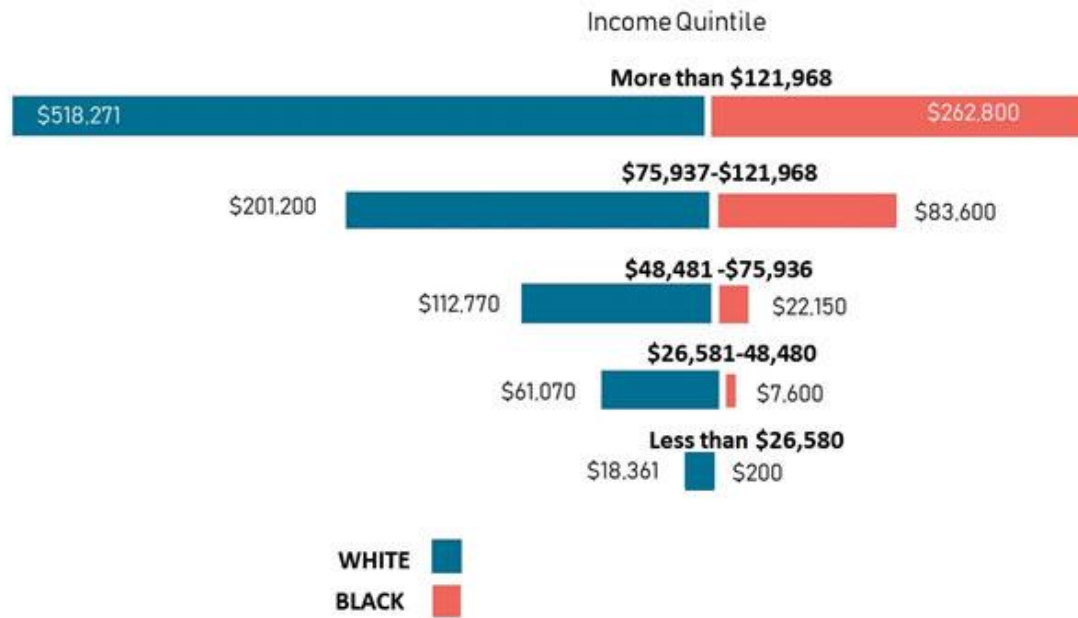
Source: Authors calculations, SIPP, 2014.

In addition, higher levels of household income are not associated with significant reductions in the racial wealth gap. Figure 3 shows how black families have much lower wealth than white families even when they have comparable earnings. In particular, black households in the lowest 20 percent of the income distribution essentially have zero net worth, while the poorest white families have on average \$15,000 - \$18,000 in net worth. Even belonging to the richest quintile does not make black families as wealthy as whites: their median wealth is approximately half of that of white families in the same income quintile.

*The pattern is evident: studying hard and working hard clearly is not enough for black families to make up for their marginalized financial position.*



Figure 3: Median Household Net Worth by Race and Household Income Quintile



Source: Authors calculations, SIPP, 2014.

## Myth 2: The racial homeownership gap is the “driver” of the racial wealth gap



A 2017 [New York Times Magazine](#) article by renowned sociologist Matthew Desmond stated what he thought to be obvious (and uncontroversial): “[d]ifferences in homeownership rates remain the prime driver of the nation’s racial wealth gap.” Desmond is far from alone in perpetuating this misperception. A 2015 report from the think tank [Demos](#) claimed “[e]liminating disparities in homeownership rates and returns would substantially reduce the racial wealth gap,” while the [Institute on Assets and Social Policy](#) at Brandeis University wrote an entire report on how interest deductions for home-owners “drive” the racial wealth gap. After all, the typical household, regardless of race, holds most of its wealth in home equity. Since black families own homes at substantially lower rates than their white counterparts, the argument has it

that if blacks only achieved rates of home ownership similar to whites, the racial wealth gap would be eliminated.

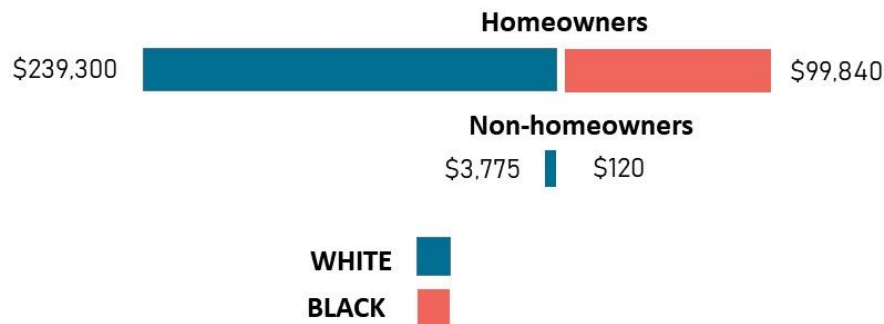
The word “drive” suggests a causal link between homeownership/home equity and the generation wealth. However, a major flaw in this reasoning is that, by definition, homeownership/home equity is a *component* of wealth. Hence, the statement that “homeownership drives wealth” is equivalent to saying that “wealth drives wealth.”

As discussed below under *Myth 5*, blacks with positive wealth do tend to have a greater share of their asset portfolio in homeownership than whites, since a home is the largest (usually) non-depreciating major asset held by most American households, regardless of race. Nonetheless, in the aggregate whites have considerably more resources than blacks and, likewise, have greater home equity and also greater value *in every other type of asset* than blacks as well.

Furthermore, empirically, the evidence simply does not support the claim that the racial homeownership gap explains the racial wealth gap. Figure 4 shows median household wealth by homeownership rates. *For those households who do not own a home, wealth levels are low for both white and black households; however black non-homeowner households have a mere \$120 in net worth – insufficient to feed a family for a week. The data indicates that white households who are not home-owners hold 31-times more wealth than black households that do not.*

*Among households that own a home, white households have nearly \$140,000 more in net worth than comparable black households.* While the wealth ratio between whites and blacks may narrow somewhat among those who own a home, a six-figure wealth differential remains. Clearly increased homeownership is far from sufficient to close the racial wealth gap.

Figure 4: Median Household Net Worth by Race and Homeownership



Source: Authors calculations, SIPP, 2014.

*Homeownership and wealth are clearly correlated, but it is a severe misstatement to claim that if blacks owned homes at the same rate as whites the racial wealth gap would be closed.* To be sure, a sizeable difference in ownership rates exists, as well as a dramatic difference in home equity across black and white homeowners.

Figures from the 2017 U.S. Census indicate that 72.5 percent of whites own a home compared with 42 percent of blacks.<sup>3</sup> Nevertheless, substantial regional variation exists. For instance, in Los Angeles, blacks have slightly higher homeownership rates than Asian Indians; however, using data from the *National Asset Scorecard for Communities of Color Project* (NASCC), Asian Indian households in Los Angeles have substantially greater levels of wealth than blacks despite, statistically, having no greater likelihood of owning a home ([De La Cruz-Viesca et al. 2016](#)).<sup>4</sup>

While closing homeownership rates may have some benefits, the story is complicated. Indeed, there are various pathways to wealth and assets in which wealth is stored, and

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<sup>3</sup> These levels are similar to those reported in the 2014 SIPP sample, where home ownership rates are 76 percent for whites and 44 percent for blacks.

<sup>4</sup> In Los Angeles, U.S. blacks had a median net worth of \$4,000 compared to \$592,000 for Japanese households, \$460,000 for Asian Indian households, and \$408,200 for Chinese households.

these pathways and assets will vary across context, including geographic location. Nonetheless, a major underlying difference in homeownership rates is an initial difference in endowments.

Broad-based homeownership in the United States as a means to achieve economic security was brought about through public policy reforms, starting with New Deal legislation. The New Deal created relatively sound long-term mortgage markets, as well as down payment capital finance and reduced down payment requirements for homeownership. This transformed the housing landscape, allowing many working-class households to move from the rental lifestyle to obtaining a piece of the American dream - owning a home.

Yet the path to homeownership has been riddled with entrenched racism, as the Federal Housing Administration (FHA) systematically refused loan applications to black families through the policy of redlining.<sup>5</sup> Richard Rothstein (2017) has made the following observation in a recent book on the racialized character of post-World War II social mobility policies:

[My book] *The Color of Law* is concerned with consistent government policy that was employed in the mid-twentieth century to enforce residential racial segregation. There were many specific government actions that prevented African Americans and whites from living among one another, and I categorize them as unconstitutional... For example, many African American World War II veterans did not apply for government-guaranteed mortgages for suburban purchases because they knew the Veterans Administration would reject them on account of their race, so applications were pointless. Those veterans then did not gain wealth from home equity appreciation as did white veterans, and their descendants could not inherit that wealth as did white veterans' descendants.

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<sup>5</sup> For an extensive discussion on the development of racialized housing policies see Richard Rothstein (2017),

Further, the racialized history of housing policy in the U.S., including residential segregation, redlining, and discriminatory credit practices, have exacerbated inequality in wealth and homeownership rates and have also contributed to the rate of return on the asset itself. Part of the persistent wealth-gap across homeownership status may be explained by the fact that a home is one of the only assets in which the race of the owner affects the rate of return.

Further, the idea that homeownership creates wealth simply may put the relationship backward. Rather than homeownership creating wealth, having family wealth in the first place leads to homeownership, particularly high equity homeownership. As we discussed in the introduction, blacks have minimal initial wealth to invest in homes or pass down to their children to assist with down payments. Research by Gittleman and Wolff (2004) suggests that when black households do obtain some wealth, one of the first assets they purchase, similar to other Americans, is a house. But without sufficient wealth in the first place, households have limited means to invest in homeownership. Wealth, after all, begets more wealth.

While achieving parity in homeownership and rates of return on housing is certainly a worthwhile goal that might improve economic security, stability and fairness, it is a widely held myth that improving homeownership rates amongst black households will close the racial wealth gap.

Today, simply advocating the purchase of a new home will not overcome the existing gap produced by national policies. As illustrated above, even blacks who own their home encounter a large racial disparity in home values. If the goal truly is to eliminate the racial wealth gap, policymakers should be concerned with providing, at the very least, an initial, significant financial endowment to black young adults to invest in an asset like a new home, as well as an aggressive campaign against housing and lending discrimination, which limits the asset appreciation of the housing stock and financial products available to blacks.

### **Myth 3: Buying and banking black will close the racial wealth gap.**



In his famed 1968 speech *“I’ve Been to the Mountaintop”*, Martin Luther King Jr. called for a ‘bank-in’ movement. To assert black independence, King called on his followers to “strengthen black institutions” by taking “your money out of the banks downtown and deposit your money in Tri-State Bank,” a black owned bank. This idea, that buying and banking from black owned businesses will empower the black community and close the racial wealth gap, has been widely embraced, historically by a diverse array of Americans including Booker T. Washington, Marcus Garvey, Richard Nixon, and, recently, by the #BankBlack movement.

From this perspective, if only black consumers would invest in their own communities, turning inward for solutions to their economic woes, rather than asking the state for a handout, they would become economically self-sufficient and eventually thrive. After all, the premise works as follows:

A group with a low profile of achievement does not have to persuade members of the dominant group to embrace policies to repair the out-group that may impose costs on the dominant group. Everything ultimately can be solved internally with the right amount of spit and polish. (Darity 2009)

Rather than creating an inclusive and just economy that does not greatly disadvantage a group solely based on their race, politicians across the aisle embraced the idea of buying and banking black. In 1968, the same year King called for a ‘bank-in,’ none other than presidential hopeful Richard Nixon came out endorsing “black capitalism”.

In his speech to the Republican National Convention, Nixon proclaimed:

Instead of government jobs, and government housing, and government welfare, let government use its tax and credit policies to enlist in this battle [against poverty] the greatest engine of progress ever developed in the history of man—American private enterprise.

Black capitalism, in Nixon’s eyes, was the solution. So while white America received ample government support through public policies to build and maintain wealth, blacks were offered a deficient private sector strategy (Katznelson 2005). Black capitalism was a solution that would allow the government to hand over the economic “problems” of poverty and insufficient wealth in the black community to the community itself, effectively ridding the government of responsibility (Baradaran 2017).



But black businesses and banks cannot thrive on a separate and unequal playing field. For instance, in the U.S. black banks are smaller and less profitable than similar white institutions (Baradaran 2017). This is not because the black-owned institutions lack a strong business model or viable leaders, but because of the economic situation of the communities where they operate and their own disparate levels of access to start-up and developmental finance.

For instance, since black families have minimal liquid wealth, their bank accounts tend to hold money for day-to-day and week-to-week expenses. Small and unstable deposits due to continued economic penalties forced upon black workers and households makes profitability a significant challenge for these banks. In the end, if black banks and businesses are a supposed solution to the racial wealth gap, we must address a basic math problem that arises: to close the gap, black banks and enterprises must earn a much higher rate of return than white businesses. Without this condition being met, the gap only will be perpetuated rather than ended.

What is the state of black business in the United States today? A recent report by the Association for Enterprise Opportunity indicates that although there are 2.58 million black-owned businesses in the United States, collectively generating \$150 billion in revenue. Unfortunately, this represents negligible ownership and control over the nation's productive capacity (Gorman 2017).

For instance, in 2016, the top 100 black-owned firms identified by *Black Enterprise* collectively grossed \$24 billion and employed 73,940 workers.<sup>6</sup> In contrast, Walmart, the top firm by revenue in the U.S., grossed more than twenty times as much in revenue

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<sup>6</sup> <http://www.blackenterprise.com/lists/be-100s-2017/>

and employed 2.2 million *more* workers than the entire top 100 black-owned firms combined in the same year.<sup>7</sup> In fact, Walmart's annual revenue – the largest private employer in the U.S. -- also exceeds those of all 2.58 million black owned businesses combined.<sup>8</sup>

Black-owned banks also are *miniscule* in the context of the general scale of American banking. The largest five black owned banks recently were estimated to have assets totaling \$2.3 billion, while J.P. Morgan alone had an estimated \$2 *trillion* in assets. Thus, the top five black banks' assets were a tiny 0.1 percent of Morgan's assets (Fontinelle 2017). *This indicates that the existing infrastructure of black-owned banks lacks the capacity to produce wide and substantial increases in black wealth.* Even if they were to double, triple, or quadruple their assets, black banks would not be major players on the American economic landscape, never mind the global landscape. Moreover, since black wealth is so low in the first place, it is a mere fantasy to anticipate that the existing black consumer base could build a black-owned equivalent of J.P. Morgan by banking black.

Indeed, the illusion that blacks have the capacity to build a separate, major economy is perpetuated by the oft-repeated observation that black Americans possess \$1.2 trillion dollars in buying power that, allegedly, has been misspent thus far. Jared Ball has advanced the following potent deconstruction of this contemporary cliché:

1. The claim that Black America has roughly \$1 trillion in “buying power” is popularly repeated mythology with no basis in sound economic logic or data. While the myth has a longer history, it is today largely propelled by misreadings and poor (false) interpretations of **Nielsen** surveys and marketing reports...

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<sup>7</sup> <https://nwww.marketwatch.com/investing/stock/wmt/financials>

<sup>8</sup> <http://fortune.com/fortune500/walmart/>

2. “Buying Power” is a **marketing phrase** that refers only to the “power” of *consumers* to purchase what are strictly *available* goods and is used as a measurement for corporations to better market their products. “Power” here has nothing to do with actual economic strength and *there is no collective \$1+ trillion that Black people have and just foolishly spend ignorantly to their economic detriment.*

3. The myth of “buying power” functions as **propaganda** working to deny the reality of structural, intentional and necessary economic inequality required to maintain society as it is, one that benefits an increasingly decreasing number of people.

Note, also, even if we accept the estimated \$1.2 trillion total of “black buying power” as valid, it still is only 60 percent of the value of J.P. Morgan’s total assets.

A strategy for closing the racial wealth gap currently in popular circulation is to have each of the nation’s 40 million black Americans contribute \$10 a month (\$120 a year) to a fund to support black owned banks who, in turn, will finance further development of black owned businesses. But the total amount of that fund would only come to \$4.8 billion, a tiny speck in America’s overall wealth and national income.

*The key to assisting black businesses in their development and growth lies in leveling the terrain of racial wealth differences and increasing black entrée to start-up and developmental capital in the first place.* Prior research has confirmed that individuals with access to family wealth both directly, through transfers from immediate family members, and, indirectly, through kin networks, have markedly higher rates of entrepreneurship and are more likely to start larger businesses (Evans and Jovanovic [1989](#); Hosseini [2016](#)).

*More than two decades ago, Timothy Bates (1995) found that individuals with relatively high levels of education and at least \$100,000 in net worth were the persons most likely*

to undertake self-employment. But, *today*, the median black household's net worth is, one-tenth of the threshold figure for successful entry advanced by Bates in 1995.

While some may argue that the “wealthy tend to make better entrepreneurs” Evans and Jovanovic argue strongly that “the data reject this explanation,” and that the levels of capital required to start businesses systematically exclude non-wealthy individuals, regardless of their entrepreneurial talent. Thus, with the denial of black wealth accumulation and with the continued exclusion of blacks from business credit markets, blacks simply do not have access to the necessary resources to build corporations that can be players in a global economy ([Blanchflower](#) et al.). A black American corporate monolith cannot be built on \$1.2 trillion in spending capacity, never mind \$4.8 billion in seed capital.

Mehrsa Baradaran (2017) forcefully argues that “buying black, banking black” is a stance that is symptomatic of an attraction to the chimerical dream of “black capitalism.” She contends that, again, in the absence of a wide, deep, and independent foundation in wealth among black Americans, the prospect of a world of giant black-owned corporations is no more than a fantasy. Baradaran's central conclusion is capitalism, whether black or white, cannot fix problems created by racialized public policies.

We must make it clear that we have no objection to banking black or buying black. In the interest of black solidarity, the idea has great merit. *But the failure to bank black or buy black does not explain why we have a racial wealth gap of this magnitude, nor will banking black or buying black do much to reduce the gap.*

## Myth 4: Black people saving more will close the racial wealth gap



The finding advanced in peer reviewed articles in economic journals is clear: *there is no evidence that black Americans have a lower savings rate than white Americans once household income is taken into account* (Hamilton and Chiteji, 2013). For example, Maury Gittleman and Edward Wolff (2004) using data from the Panel Study on Income Dynamics (PSID), tracked the financial position of black and white families and found that, *once income is controlled*, if anything, black families actually have a slightly higher savings rate than their white counterparts.

This mild savings rate advantage is indicative of even greater thriftiness among blacks, since they typically have more kin obligations to assist low-income relatives which, further reduces the ability to save (Chiteji and Hamilton 2002; and Heflin and Patillo 2006). *If anything, it appears that blacks generally live more frugal lives than whites; a study conducted by the Institute on Assets and Social Policy using the 2013 Survey of Consumer Finances found that, at comparable levels of income, whites spend 1.3 times more than blacks (Traub et al.).*

Nonetheless, the conventional wisdom has it that blacks in search of immediate gratification lack self-control and are plagued, uniquely, by a culture of frivolous consumerism. *This belief was magnified by Ronald Reagan's use of the "welfare queen" trope during his campaign, and, recently, via internet financial gurus pushing images of black America spending money on Jordan brand Nike shoes, rather than household needs. Yet, the empirical evidence indicates that it has not been the case historically, nor is it the case today, that blacks are more financially wasteful than whites.* In addition to the Gittleman and Wolff (2004) study, economists ranging from arch-conservative Milton Friedman to Marjorie Galenson to Marcus Alexis, a founder of the Caucus of Black Economists, all found that blacks have a slightly higher savings rate than whites.

However, there is a 2009 Ariel/Hewitt report that claims there is a white savings advantage with regards to pension accounts. The report claims that black employees at a sample of 57 large companies have lower participation and contribution rates in company sponsored 401(K) plans even after controlling for salary, job tenure and age. Hamilton and Darity (2010) offer a critique and explain that the Ariel/Hewitt study does, indeed, uncover racial difference in pension account participation and value, but, not racial differences in pension savings rate. In 2012, Ariel/Hewitt updated their study results, but the same criticisms apply.

First, it is not clear from the Ariel/Hewitt report whether or how income, job tenure and age are controlled. For example, the Ariel/Hewitt study compares participation rates across race, not in a continuous way, but at various income categories. The lowest participation rate difference, 92 versus 91 percent, occurs in the highest income category – those earning above \$120,000, while the widest participation rate difference, six percentage points (56 versus 50 percent), occurs in the lowest income category – those earning below \$30,000. Nevertheless, the report states that blacks, overall, are seven percent less likely to participate in a 401(K) plan after controlling for salary, age and job tenure.

After controlling for incomes, it is inconsistent for the overall racial participation rate differential to be seven percent, while the largest percentage point difference within each of their defined income categories is at most six *percentage* points. This would suggest an unlikely scenario that blacks are better positioned in terms of salary within the defined income brackets and/or have longer job tenure and/or are older on average.

Also, the unit of analysis for the Ariel/Hewitt study is the individual rather than the family. This is relevant since wealth generally is measured at the family or household level, and savings decisions are often made at the family level. Individual income controls are inadequate to determine family savings rate “behavior,” since saving decisions are based the entire family’s expenses and income flows. Furthermore, 60 percent of the black sample in the Ariel/Hewitt study consists of women in comparison with 48 percent for whites. Given racial differences in marriage rates, using individual, rather than family income, masks the potential lower resources to save in the black sample.

Urban Institute Fellow, Kilolo Kijakazi, in her 2010 testimony for the Employee Retirement Income Security Act (ERISA) Advisory Council on Disparities for Women and Minorities in Retirement cited a more nationally representative study by the Center

on Retirement Research, which finds no residual difference in pension savings. Kijakazi observed that “for comparably situated individuals, Blacks, whites, and Hispanics respond in a similar fashion in terms of joining a 401(k) plan and deciding how much to contribute...”

In addition to savings out of income or “active savings,” family wealth also can increase as a result of “passive savings.” In short, if the value of a family’s assets rises/appreciates, then so will their net worth. The Gittleman and Wolff (2004) study cited above, based on data collected before the predatory subprime and mortgage market crisis, also finds no significant racial advantage in “passive savings” for white families with positive assets, again, after family income is taken into account. This leads to *Myth 5*, the claim that the racial wealth gap is driven by a lack of financial literacy on the part of blacks. *Myth 5* includes the assertion that blacks display inferior portfolio management skills.



## Myth 5: Greater financial literacy will close the racial wealth gap



Hamilton and Darity (2017) have argued that, all too often, the framing of the racial wealth gap focuses on poor financial choices and decisions on the part of blacks. Evidence put forth to make the case for black financial illiteracy includes blacks' disproportionate use of alternative financial service products, like payday loans, auto-title loans, and check cashing institutions. These financial services have fees and interest payments that far exceed more conventional one. Other evidence put forth also includes racial variations in portfolio composition in which the blacks have a much larger share of their assets in the form of home equity. Here, blacks are characterized as

making the suboptimal decision to invest in “low-return” housing assets instead of higher yield financial assets (Boshara et al. 2015).<sup>9</sup>

For many Americans with any significant level of wealth, home equity makes up a predominant amount of their assets. The consumption value of homeownership, including access to schools and other desirable neighborhood amenities, and the tax-preferred status of owning a home, should be considered when examining portfolio shares. Regardless of race, historically a home is the first major asset purchased by most Americans.

*The key point is whites generally have more resources to invest at the outset—not only do they invest more in homeownership, they invest more in financial assets too.*

*Basically, whites have more of every asset simply because they have more resources.*

Hamilton and Darity (2017) have observed that “...attributing the racial wealth gap to a more diverse asset portfolio for whites is ambiguous at best, given that it is wealth in the first place that is associated with having a more diverse asset portfolio.”

The problem with assigning differences in cost of finance and asset portfolios to difference in financial acumen is its directional emphasis. Meager economic circumstances—not poor decision making or deficient knowledge—constrain choices and leave asset-poor borrowers with little to no other option but to use predatory and abusive alternative financial services (Hamilton and Darity, 2017).

A negligible level of economic resources readily explains why blacks, specifically, use more predatory financial institutions. Indeed, Jonathan Morduch and Rachel

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<sup>9</sup> This argument obviously contradicts the premises of *Myth 2* discussed above. More recent work by the authors of the report cited here has been expanded to emphasize financial circumstances as an alternative to financial choice as explanation for racial differences in portfolio composition (see, for instance, Emmons et al., 2016).

Schneider's (2017) U.S. Financial Diaries (USFD) project reveals that the use of predatory financial products and alternative financial services are often last-resort finance options for economically fragile borrowers after all other options, including borrowing from family and friends, have been exhausted.

*As we have noted above, wealth begets more wealth. Higher levels of wealth enable greater access to more favorable terms for credit. Wealth provides individuals and families with financial agency and choice; it provides economic security to take risks and shields against the risk of economic loss.* Basically, wealth is cumulative. It provides people with the necessary capital to secure finance and purchase an appreciating asset, which in turn, will generate more and more wealth (Hamilton, 2017). Literally, it takes wealth to make wealth, while blacks largely have been excluded from intergenerational access to capital and finance.

It merits noting, again, that the Gittleman and Wolff (2004) study cited in the previous section, which used panel data long prior to the 2007 predatory subprime mortgage lending crisis, did not find a significant racial difference in asset appreciation rates for households with positive assets, once household income is taken into account. This result emerged despite the well-documented evidence of historical and ongoing housing and lending discrimination (Bocian, Li, and Ernst, 2010; Institute on Race and Poverty, 2009; Oliver and Shapiro, 2006; Katznelson, 2005).

There is also a presumption that, as a result of financial irresponsibility, blacks carry much greater debt than whites, but, this presumption is not valid (Hamilton and Darity, 2017). Tippett and coauthors (2014) find that, overall, a slightly larger share of white families has unsecured debt than black families. Furthermore, after controlling for basic socioeconomic and demographic characteristics, the study finds no significant difference in the value of black and white family unsecured debt holdings.

When unsecured debt is disaggregated into three categories: (1) store bills and credit card debt, (2) loans from a bank or credit union, and (3) “other” types of debts, including student loans and medical bills, it is only the “other” category in which there is a statistically significant racial difference in unsecured debt—21.5 percent for black families and 19 percent for white families. This debt category represents borrowing for school and other critical needs, including medical care (Tippet et al., 2014).

Paul et. al. (2016) demonstrate that among relatively better-off students who are able to attend college, blacks are 25 percent more likely to accumulate student debt and, on average, borrow 10 percent more than their white counterparts. The adverse implications of the liability produced by these racial differences in self-investment debt are compounded by the fact that black students are one-third less likely to complete their degrees, often because of the greater financial burden that precipitated student loan borrowing in the first place. Paul et. al. (2014) find that 29 percent of black students who leave college after their first year do so for financial reasons.<sup>10</sup>

Student loan debt and mortgage debt traditionally have provided Americans with access to finance to purchase the economic security of an appreciating asset of a house or a job in the professional or managerial sector. In effect mortgage debt and student loan debt may be considered a form of “good debt,” especially in comparison to other types of debt like credit card debt, which is often associated with consumption or some good that rapidly depreciates in value (Hamilton, 2017). However, the implication of so-called

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<sup>10</sup> In terms of student loan debt, there is evidence that for-profit colleges and universities, which often issue misleading claims about graduation and job placement rates, disproportionately enroll and target black students (see Huelsman, 2015; McMillan-Cottom, 2017; Seifert, 2017). Huelsman (2015) states that “[t]he University of Phoenix, for example, was spending as much as \$400,000 a day on advertising. Ads for these colleges were ubiquitous in communities of color, on commercials for daytime television programs, at bus stops and subways, and in other places where black and brown people congregated. They enlisted leaders in the black community to advertise on their behalf, as comedian and television host Steve Harvey has for Strayer University, or as Al Sharpton has when he devoted glowing television coverage to the University of Phoenix in a special sponsored by the for-profit behemoth.”

“good debt” has different meaning, once we consider race and the prevailing framework of subjecting a marginalized racial group to inferior housing and educational products, predatory finance, and labor market discrimination (Hamilton and Darity 2017).

Also relevant is the intensifying context of economic precarity and income volatility in U.S. labor markets, where Americans, and blacks in particular, increasingly have less control of when and for how long they work (Lambert et al., 2013; Hardy and Ziliak, 2014; Hardy, 2016). This makes access to short-term credit, including credit card debt, an essential element in management of household budgets, particularly for vulnerable households without the financial cushion of liquid assets. Pressure to utilize credit cards to balance household budgets in the midst of expense and income volatility continues despite substantial reported disdain for their use (see evidence from a consumer attitude surveys published by The Pew Charitable Trusts 2015).

As stated above, it is ultimately racial differences in initial endowments of and access to financial resources that sustain and fuel the racial wealth gap. According to the Pew Charitable Trusts (2015) “...white families have better access to mortgages, and credit generally, than black and Hispanic families. Even if mortgages are secured, black and Latino homeowners experience higher rates of foreclosure and housing distress than white families, in part because they, systematically, are offered riskier loans. This obviously has implications with regards to *Myth 2*, that *the racial homeownership gap is the “driver” of the racial wealth gap* as well.

Furthermore, home equity for black American homeowners has not increased at the same rate as it has for white homeowners largely because home values in the neighborhoods to which blacks have been systematically restricted, have been slow to recover since the housing crisis. Consequently, they also have generated lower returns on mortgage debt. Other research suggests that inheritances and other

intergenerational wealth transfers often benefit white families more than black families.”<sup>11</sup>

Predatory targeting from financial and educational institutions, the greater vulnerability to income and expense volatility coupled with little to no liquid assets notwithstanding, the Pew Charitable Trusts’ (2015) report on American debt concludes that the racial wealth gap has more to do with a lack of assets than an abundance of debt for black families. Indeed, the report cites other research that, again, suggests that inheritances and other intergenerational wealth transfers yield far more advantages for whites than blacks.

*Greater financial literacy can be valuable if an individual or household has finances to manage. Financial literacy without finance is meaningless. There is no magical way to transform no wealth into great wealth simply by learning more about how to manage one’s monetary resources.* While wealth begets wealth, typically no wealth begets no wealth, regardless of how astute a money manager the person may be.

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<sup>11</sup> As a result of the higher finance costs and lower appreciation rates, Dorothy Brown (2012), a professor of tax law at Emory University, urges those promoting homeownership as a mechanism to bridge the racial wealth gap to be circumspect. Brown asserts that “[p]ut simply, the market penalizes integration: The higher the percentage of blacks in the neighborhood, the less the home is worth, even when researchers control for age, social class, household structure, and geography.”

## Myth 6: Entrepreneurship will close the racial wealth gap



Entrepreneurship has long been praised as a route to eliminate racial wealth inequality. As an adjunct to Myth 3, entrepreneurship has been identified as a path to the phantasm of black capitalism. For at least three decades internet wealth gurus, black and white, have told people if they only left salaried employment and struck out on their own, they could get rich like the late 19<sup>th</sup> century robber barons. The problem is this has not been borne out by the evidence, nor has it proven to be accurate advice under current circumstances.

Nor are all the effects of successful large-scale entrepreneurship salutary. It often destabilizes communities:

The most successful entrepreneurship is disruptive — a term entrepreneurs these days have donned as a magic mantle: “We have a disruptive business model, a disruptive technology, and will disrupt the market” goes the startup pitch. Amazon has disrupted book stores and other retail chains, Zipcar disrupted car rentals, Netflix is disrupting cinemas and cable companies, Airbnb disrupts hotels, and Bitcoin may disrupt the payment industry. But the meaning of “disruptive” was never meant to be pure and all-positive: its synonyms include “troublemaking,” “disorderly,” “disturbing,” “unsettling,” and “upsetting” (Isenberg 2014).

*Not only does successful large-scale entrepreneurship have a disruptive effect on existing businesses, it can accentuate the wealth divide between rich and poor.* It often creates some of the worst social outcomes by grossly exacerbating rather than closing the racial wealth gap:

The problem is entrepreneurship, when successful, always leads to local income inequality, at least in the short and medium run, and ironically, the more successful the entrepreneurship, the more extreme the inequality. ... But on the negative side, the newly wealthy can now afford to bypass, for example, the local public school system or health care services if they don't think they are good enough, draining public institutions' vital resources. The wealth can also dramatically drive up the proximal cost of living: Properties will get reassessed, driving taxes up when neighbors pay millions for the house next door. The cost of some local services may also increase sharply, from cars to high-end restaurants to babysitting (Isenberg 2014).

In addition, Levine and Rubenstein (2017) have shown that the significant edge in entrepreneurship held by white males originates in their serendipitous birth into more affluent families. No better example is available than billionaire Mark Zuckerberg, owner of Facebook, who, while often touted as self-made, in fact [according to businessinsider.com](#) purportedly received initial working capital from his professional father in 2004, in [exchange for shares in Facebook](#) that are now worth millions. Another good example is billionaire, Jeff Bezos, who started Amazon in 1994 with a [\\$300,000 loan from his parents](#) (“Who Is Jeff Bezos?” 2013).



In general, the net effect of entrepreneurship is to recycle an expanding – often an outrageously expanding -- circuit of wealth among members of an upper class of white players. In the 21<sup>st</sup> century, the number of persons coming from poverty, whether white or black, to enter the ranks of the super-rich via entrepreneurship is trivial.

*When we compile the data even those members of marginalized communities who manage to enter into entrepreneurship largely fail. This is due to a number of factors ranging from under-capitalization, limited market access, or outright theft or destruction.* Blacks are far less likely to own a business, and for blacks that do own a business they have far less equity. Black business literally has been annihilated nearly as often as it has sprouted in America, dating back to the [Tulsa Massacre of 1921](#), the razing of one of the nation's prosperous black communities dubbed at the time as a "Black Wall Street" (Fain 2017).

In reality the data paints a daunting picture for diversity in entrepreneurship. According to the [U.S. Census Bureau's Survey of Business Owners \(SBO\), which is conducted every five years](#), over 90 percent of Latino and black firms do not have even one employee other than the owner. The proportion of owner only firms reaches a high of close to 98 percent for the sub-group of black female led businesses. When blacks do own a business the return to that business is lower than that of whites and falls well short of closing the racial wealth gap. In a report prepared for the Center for Global Policy Solutions. Algernon Austin (2016) observed:

Businesses with paid employees have a much greater economic impact than those without employees. The annual sales of businesses without employees are on average only a fraction of the sales of businesses with employees. While there are some firms without employees that are very successful financially, the majority are not. ... 67.3 percent of firms without employees had annual sales of less than \$25,000. Any profits these firms made—if they did make profits—would only be a fraction of the total sales. This means that many firms without employees do not make enough to keep their owners and their owners' families out of poverty if the firm is the owner's sole source of income. On the other hand, a majority (57.9

percent) of businesses with paid employees had annual sales of more than \$249,999. It is more likely that these firms are earning profits for their owners.

Austin (2016) went further, adding:

If the number of people-of-color firms were proportional to their distribution in the labor force, people of color would own 1.1 million more businesses with employees. These firms would add about 9 million jobs and about \$300 billion in workers' income to the U.S. economy.”

In short, the composition of entrepreneurship type would need to be dramatically different in terms of ethnic and class makeup to have a net positive effect on the racial wealth gap.

Yet, even if blacks had the same business ownership rate as whites, the question of the scale and profitability of the business still would be an issue. If we narrowed the black-white difference in business ownership, this would not insure that we would narrow the black-white difference in the value of businesses.

Whites, for example, are more likely than any other racial or ethnic group to be business owners. Twelve percent of whites are entrepreneurs compared to 11 percent of Asians, 8 percent of Latinos, and only 6 percent of Blacks. ... For the 8 and 6 percent of Blacks and Latinos that respectively engage in business ownership, the median net worth of Black (\$91,500) and Hispanic (\$81,391) business owners is each over 10 times higher than the median net worth (inclusive of home equity) of Blacks and Hispanics generally (\$91,500 vs. \$7,113 and \$81,391 vs. \$8,113 respectively). While entrepreneurship clearly provides increased wealth outcomes to people of color, a tremendous wealth gap remains. The median net worth of Black and Latino households is still less than a third of the median overall net worth of White business owners (\$287,166) (Tippett, et. al 2014).

Data from the Small Business Administration indicates that just over 19 million businesses, or 70.9 percent of all U.S. businesses, are white owned. Blacks own about 2.6 million businesses or 9.5 percent of all U.S. businesses, and Latinos own 3.3 million businesses or 12.2% of all American businesses. But the sales, and employment

numbers tell a more depressing story. The 19 million white-owned businesses have 88 percent of the overall sales, and control 86.5 percent of U.S. employment, while black businesses have a mere 1.3 percent of total American sales, and 1.7 percent of the nation's employees. Latino businesses have four percent of U.S. sales and 4.2 percent of U.S. employment (Mcmanus 2016).

*No amount of tutorials or online courses from wealth experts can change the reality of the racialized advantages and disadvantages that undergird entrepreneurship in America.*

In a 2010 study the Minority Business Development Agency found that white business owners started their businesses with an average of \$106,702 in capital, compared to \$35,205 for African-American-owned businesses. We must keep in mind the primary reason for business failure is low capitalization at the start, and blacks begin the entrepreneurship game with low capital finance, reinforcing the theme that *wealth begets wealth*.

Even since President Nixon's emphasis on "Black Capitalism," no administration has offered the transformative policy changes to create any significant support for black business development. We did not see it under the Obama Administration and we are not seeing it under the Trump administration.

During the [2016 Global Entrepreneurship Summit President Obama called](#) entrepreneurs a form of social glue. Continuing by stating "*Entrepreneurship remains the engine of growth*". All while under President Obama, Small Business Administration loans dropped [substantially for black Americans](#). [The Louisiana Weekly reported:](#)

Black borrowers received 1.7 percent of the \$23.09 billion in total SBA loans. The percentage is down sharply from 8.2 percent of overall SBA

loan volume in fiscal 2008. By number of loans, black-owned small businesses got 2.3 percent of the federal agency's roughly 54,000 loans last year, down from 11 percent in 2008. (Curry 2014).

Robust black entrepreneurship also will require an environment where the racial wealth disparity already has been confronted and altered directly. Greater black wealth, and hence financial capital, is the vital prerequisite for greater black entrepreneurship, rather than *vice versa* overemphasis.

## **Myth 7: Emulating successful minorities will close the racial wealth gap**



In a recent book by legal scholars Amy Chua and Jed Rubenfeld (2013), a longtime trope re-emerged. According to Chua and Rubenfeld, the reason why certain ethnic, or “cultural groups” as they call them, achieve relatively high levels of economic success compared to others (read: blacks, most Latino, and Native Americans), is due to a set of superior group traits not possessed by the others. Using circumstantial and other evidence, including comparative household income and occupational status across particular social groups, the argument rehashes a now half-century old “culture of poverty” theory (Lewis, 1966).

This theory, as applied, holds that “self-sabotaging” group to individual-level values learned under the conditions of concentrated poverty are recycled intergenerationally and constitute a barrier toward favorable economic outcomes.<sup>12</sup> This can include behavioral impediments to being able to acquire and hold down a job, an indifference toward educational attainment, saving or general asset building practices, and other alleged negative group-level attributes, including a predisposition toward pathological family structures (see Murray, 1986).

In the past, much of what is commonly referred to as the “model minority” narrative has relied on the perceived bootstrap success of American Jews and other southern European immigrant groups, and, more recently, select Asian, Latino, Caribbean and African immigrant communities. Notwithstanding the diverse, complex social and economic make-up of these groups in the first place, the immigrant success trope has yielded the problematic inference that “if they can do it, why can’t you?”<sup>13</sup> With blame centered on black and Latino communities, the contemporary claim that “if they only acted right” perpetuates the myth that by emulating successful minorities, subaltern groups can close the racial wealth gap by their own unilateral efforts.

Take the Cuban-American and Korean communities for example, which, if we examine the groups using income alone, appear to provide *prima facie* evidence for the immigrant success trope. But the “lateral mobility” hypothesis (Darity 1989) argues that the relative social position held by the majority of adult immigrants in their country of origin will be regained by their children. *In short, so-called “successful” immigrant groups actually retrieve a comparable class position as the one they held in their country of origin. Their pre-migration capital, whether embodied in their education and*

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<sup>12</sup> Steinberg (2011) and Darity (2011) offer comprehensive critiques of the culture as destiny hypothesis.

<sup>13</sup> See Steinberg (1981) and Pierre (2004) for critical discussions of this trope.

*training or their financial resources, is critical in determining their outcomes in the United States.*

Furthermore, this does not take into direct account other structural factors and national policies, including the selectivity of documented immigration (which favors more “skilled” immigrant groups) and any official support provided for particular immigrant groups by the state. For example, while the favorable class position and predominantly white phenotype of the initial 1960s arrivals from Cuba has been well-documented, there is less attention paid to the role of the Cuban Refugee Program. By 1994 the program had invested more than \$1 billion in successful integration of the community through resettlement resources, housing and educational training and other programs (see Masud-Piloto, 1995; and Warren and Twine, 1997).

For Koreans, who have been hailed as a successful immigrant group due to their savvy entrepreneurship, what generally is ignored is the fact that the immigrant community that has come to the United States is a highly self-selected sample (educated, urban, middle class). They have been able to provide opportunities for themselves by bringing substantial start-up capital with them (see Yoon 1996; and Bates 1997).

Perversely, discrimination against blacks by default assisted Korean entrepreneurs in many US cities where they share urban spaces (see Bogan and Darity, 2009; also see Min 1988). In addition, as Tamara Nopper (2010) notes, institutions played a role in their perceived “group-based” success. While their own exposure to discrimination in America’s labor markets has played a role in leading to Korean over-concentration in self-employment, the role of government agencies in actively supporting Korean business development is disregarded far too often.

If we look at groups based upon their wealth position instead of their income, it is even more apparent that the “if they only acted right” narrative falls flat on its face. For instance, let us apply the embedded belief in the immigrant success trope that the wealth gap is due largely to blacks “not valuing” education.

In two recent reports, *Bootstraps Are for Black Kids* (Nam et al. 2015) and *Umbrellas Don't Make it Rain* (Hamilton et al. 2015), the authors consistently found, as noted above under *Myth 1*, that black families hold a longstanding commitment toward their children’s education. Black families attempt to exercise that commitment despite having considerably less income and wealth to draw upon than whites.

Data from the 2013 wave of the Panel Study of Income Dynamics indicates that the median income of black parents who provided some financial support for their children’s higher education was \$44,640, while it was \$63,346 for white parents who *did not*. The discrepancy was even more pronounced for wealth. The median net worth of black parents who provided some financial support for their children’s higher education was \$24,887, while it was \$73,878 for white parents, again, who *did not* (Nam et al. 2015).

Furthermore, the typical U.S. white household with a head who held a college degree had \$268,000 in wealth, compared with \$70,000 for a black household with a comparably educated head – slightly less than a staggering \$200,000 difference. White households with heads who reported having completed some college but did not finish their degrees, still possessed substantially more wealth (net worth) than the typical black household with a head who finished a college degree. Most astonishing is the fact that black households with a head with a college degree were substantially more “wealth-poor” than whites who never finished their high school diplomas (Hamilton et al. 2015).



Additional evidence that contradicts *Myth 7* is drawn from regional variation in the wealth position of so-called “model” minority groups themselves. For instance, the National Asset Scorecard for Communities of Color (NASCC) project reveals that the Korean family median wealth of \$496,000 ranks amongst the highest in the Washington, DC metropolitan area, while their median wealth of \$23,400 in the Los Angeles metropolitan area where they make up a much larger share of the population, ranks amongst the lowest of all ethnic groups (De La Cruz-Viesca, et al. 2016; Kijakazi, et al. 2016). Such large regional intra-ethnic variation in wealth is not indicative of a consistent ethnically based cultural predisposition toward economic success.

*In short, the argument that intergroup disparities in wealth are borne out of group based cultural/behavioral deficiencies is misleading and misdirected. Instead, we should focus on the long exposure of low wealth racial/ethnic groups to theft of wealth and blockades on wealth accumulation.* To suggest that blacks and racialized Latino, and Native Americans should emulate other supposedly successful “minority” groups perpetuates the false narrative that their asset poverty is due to a lack of hard work, effort, or ambition.

## **Myth 8: Improved “soft skills” and “personal responsibility” will close the racial wealth gap**



In *More than Just Race*, sociologist William Julius Wilson (2009) argues that both structural and cultural factors interact to perpetuate persistent racial economic inequality in the United States. He invokes an example from larger changes in the economy to illustrate his thesis. Proposing that the structural shift from manufacturing to service sector jobs in the U.S. economy had a particularly devastating effect in isolating black male workers, he then (2009, p.76) says their isolation has occurred because these jobs require a set of “soft skills” that black men frequently do not possess.

Defined loosely as “employability”, “soft skills” ostensibly are necessary to produce job opportunities and occupational mobility. These skills can range from promptness to interpersonal and collaborative skills that employers might seek in potential

candidates.<sup>14</sup> At the level of individual behaviors, this can include the negative effects of the widely-held belief that blacks have a tendency to show up late to work, to hold an oppositional-attitude toward the work environment, to be rude to customers, and/or to be uncooperative and unfriendly with co-workers.<sup>15</sup> Although Wilson's focus is on labor market, the cultural deficiency trope is often used to explain racial disparities, in general.

Thus, from this perspective, if blacks simply learn and apply those so-called "soft skills," their labor market experiences –and, hence, their earnings and income -- will improve, somehow, thereby, closing the wealth gap. The implication is if blacks just acquire the requisite "soft skills", then, presumably, employment, income, and wealth gaps will close as well.

There are two major reasons why this belief is incorrect. First, if it is true that blacks (and racialized Latino communities, for that matter) need to adjust their individual behavior -- hence learn and apply these motivation-situated "soft skills" to invite the conditions that close the wealth gap -- what explains the crowding of blacks and Latino at the lower end of the labor market (those very "service sector" jobs!), while their absence from the better paying, upper echelons remains apparent, even when they have appropriate educational credentials?

Hamilton et. al. (2011) found that when taking educational attainment into account, black men are overrepresented in low wage jobs that require interpersonal contact and underrepresented in higher-paying jobs that do not require these "soft skills." Their absence from the construction industry affords powerful evidence against *Myth 8. Black*

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<sup>14</sup> For more background see Spalter-Roth and Lowenthal (2005) and Conrad (1999).

<sup>15</sup>In an on-line publication by the American Sociological Association, Spalter-Roth and Lowenthal (2005), *Ibid.*, define "soft skills" as "an array of employee characteristics that are subjectively evaluated by employers" hence how they "look and dress," whether they are perceived to hold "motivation, cheerfulness, and interpersonal skills," and maintain an "ability to represent the organization."

men already are largely located in service sector jobs that require, or depend, on “soft-skills.” It is not “soft skills” requirements that distinguish black and white male sites of employment. It is relatively lower pay in the jobs held by the former and relatively higher pay in jobs held by the latter (Aja et al. 2013).

Second, it is important to stress that, contrary to conventional wisdom, earnings and other types of income are not key determinants of wealth. Deliberate acts of personal savings out of earnings and other types of income do not actually play the fabled role assigned to them in the process of wealth accumulation. The linchpin for wealth accumulation is the transfer of resources across generations, maintaining higher wealth positions among parents and grandparents for their children and grandchildren.

*Earnings and other types of income are derivative from opportunities created by the wealth position of one’s parents (and grandparents).*

In sum, much of the “soft skills” trope repeats the conventional trope that individuals should simply “act right,” “pull up their pants” and hold and apply the same “personal responsibility” centered values that supposedly successful immigrant groups possess (see the discussion of *Myth 7* above).

*While some individuals can indeed “get ahead” or “beat the odds,” the larger structural conditions, well-documented wage and unemployment gaps, demonstrate that even when black people “do the right thing”, it does not close the racial wealth gap.*

More personal responsibility or motivation on the part of blacks is not what is needed. Rather, what is needed is an active program of wealth redistribution and the removal of structural and discriminatory obstacles that stand in the way of bridging the wealth divide.

## Myth 9: The growing numbers of black celebrities prove the racial wealth gap is closing



Official White House Photo by Pete Souza

Going as far back as the early days of Motown, black celebrity has played a prominent role in the American consciousness. But starting during the early 1980s, the image of the position of overall black wealth came to be projected through the lives of a small set of famous black Americans. *Unfortunately, from “The Cosby Show” to Michael Jackson’s multi-platinum albums to Will Smith’s meteoric rise to the present day mega couple Jay-Z and Beyoncé, black celebrity has masked black poverty, rather than contributed to closing the racial wealth gap.*

No ethnic or racial group-- not Asians, not Latinos, and not whites -- has been framed so dramatically through celebrity status as black Americans. Despite recently released [2016 Federal Reserve data showing that](#) the median black family has a net worth of about \$17,600, while the median white family has a net worth closer to \$170,000 (Jan 2017), black life has come to be seen through the lens of radically exceptional cases, rather than typical ones.

The ascendancy of blacks to the most elite positions of society has been put forth to make the case for grand racial progress. These cases of black *exceptionalism* have served as *prima facie* examples of what individual or familial acts of perseverance and hard work can achieve (Hamilton 2017).

According to Moore (2015), no singular show played a more prominent role in this shift in view than the “*Cosby Show*”, which aired on NBC from 1984-1992. The article “*Cosby Show Dreams African American Financial Realities*” made the following observation about the program:

Yet, despite this positive impact on the exceptional black individuals’ acceptance into white America’s psyche, it may have done the opposite for America’s ability to relate to the average black family’s struggles that resulted from a legacy of Jim Crow and slavery. For a generation of white Americans that had little contact with black America in daily life, the apathy Thursday nights with the Huxtables created toward the experience of black struggle has been understated. The idea that if Cliff Huxtable did it you can too rang loudly in expectations of black progress. (Moore 2015)

Post-Cosby black progress came to be signaled by the historic rise of African American media billionaire Oprah Winfrey, leaving little space for empathy for everyday black families struggling under the pressures of economic deprivation in America’s urban centers.

The celebrity-esque image of President Obama only furthered this perception. The election of Barack Obama to the highest office was trumpeted by many as the arrival of a post-racial America (Hamilton and Darity 2010). For example, after his historic 2008 presidential election, actor Will Smith proclaimed “ [All] of our excuses have been removed. There’s no White man trying to keep you down, because if he were trying to keep you down he would have [also tried to keep] Obama down” (John-Hall 2009; Hamilton and Darity, 2010).

The president himself was complicit in using his ascendancy in this regard. Playing on standard tropes about black American life, [President Obama reportedly told](#) Israel’s Prime Minister “*I’m the African-American son of a single mother, and I live here, in this house. I live in the White House.*” The implication of this type of rhetoric is a shift in American sentiment away from a public responsibility for the low wealth of the general body of black Americans, to a view of famous aberrations as a false lens suggesting that all black Americans finally had arrived at full access to the American dream.

Consider the recently released GOP Tax Reform proposal. Rather than use the abundance of wealthy whites as an example to illustrate American wealth inequality, Republicans made gratuitous use of NBA player Stephen Curry, an extreme black outlier, as an example of the American rich:

The Tax Cuts and Jobs Act includes specific safeguards to prevent tax avoidance and help ensure taxpayers of all income levels play by the rules under this new fairer, simpler tax system. Our legislation will ensure this much-needed tax relief goes to the local job creators it’s designed to help by distinguishing between the individual wage income of *NBA All-Star Stephen Curry* and the pass-through business income of *Steve’s Bike Shop* ( Payne 2017).

*Black celebrity has largely been placed at the vanguard of an imagined black achievement of affluence. While many of the wealthiest black Americans derive their fortunes from some form of entertainment, they frequently are portrayed as major corporate owners, without ever making clear what their stake in percentage or control is in a given company.*

From Sean Combs (aka Puff Daddy) who serves as a profit participant with Ciroq. Earvin “Magic” Johnson who admitted on “HBO Real Sports” to only investing 50 million dollars into the 2 billion dollar purchase of the MLB’s Los Angeles Dodgers, which according to [Yahoo Sports works out to 2.3 percent of the team](#). And Sean Carter (aka Jay-Z) with the NBA’s Brooklyn Nets, who was [reported to be part of 100 owners of the team at one point by Vox Media](#), leading to the creation of what some call the “Jay-Z rule” being adopted by the NBA board of governors, whereby a team can have no more than 25 owners, and each must invest enough to own at least 1 percent of the team. The necessity of adopting policies to eliminate the racial wealth gap becomes harder to establish, when a handful of African Americans are held out in media as evidence of significant black corporate power. When in fact, whatever power they possess is narrowly held and greatly circumscribed.

As an example, according to the Bloomberg article *“Diageo Turns to Dutch, Diddy Partnerships for Vodka Expansion,”* while Sean Combs has been held out as an owner of Ciroq. In actuality he is a profit participant whose main hand is in marketing, not in producing, nor financing the product.

A 2014 Huffington Post article (Moore 2014), [“Decadent Veil: Black America’s Wealth Illusion”](#), framed a picture of a black celebrity filled social veil that replaces a push for greater policy changes that address racial wealth disparities. Transformative social policies readily are pushed aside and replaced by what seems easier to attain: individual celebrity status that is presented as a normal and accessible means of access to the “American Dream”, rather than a fantasy.



In his widely acclaimed book *Capital In the 21<sup>st</sup> Century*, Thomas Piketty (p.380) observed:

The vast majority (60 percent to 70 percent, depending on what definitions one chooses) of the top 0.1 percent of the income hierarchy in 2000– 2010 consists of top managers. By comparison, athletes, actors, and artists of all kinds make up less than 5 percent of this group. In this sense, the new US inequality has much more to do with the advent of “super-managers” than with that of ‘superstars.’... The financial professions (including both managers of banks and other financial institutions and traders operating on the financial markets) are about twice as common in the very high income groups as in the economy overall (roughly 20 percent of the top 0.1 percent, whereas finance accounts for less than 10 percent of GDP).

This reflects a larger truth that the wealth held by those who control industry in America is far greater than the amounts found in any celebrity’s personal account, whether they are black or white. Therefore, a gap in wealth will not be closed through access to film, music, or sports careers. It is more likely to be found as being passed on through inheritance. Or in elite professions and wealth management for the rich, in the tiers of positions Piketty calls “super-managers” who receive “super-salaries.” In America these are positions overwhelmingly reserved for whites.

A *Bloomberg Business News* article titled “Black Executives are Losing Ground at Some Big Banks” noted:

At JPMorgan Chase & Co., Citigroup Inc. and Goldman Sachs Group Inc., the percentage of senior black executives and managers fell over the past five years, according to U.S. workforce data compiled by Bloomberg. They make up no more than **2.6 percent of top positions** at the three banks, lower than across corporate America, where the percentage is slightly better and ticking up (Abelson and Holman 2017 emphasis added).

In addition, the absolute number of black CEOs of Fortune 500 companies has dwindled from eight in 2015 to four in 2017. And black Americans make up just [2.6 percent of those holding posts](#) within striking distance of corporate chief executive suites

(Hymowitz 2016). To push toward closing the racial wealth gap, the veil of black celebrity must be pulled back enabling all Americans to understand there is no racial meritocracy in wealth, despite what is displayed on television networks from ESPN to BET.

## **Myth 10: Black family disorganization is a cause of the racial wealth gap**



The typical American family, if there truly ever were one, is drastically changing. The number of two-parent households has fallen, and there is no longer one dominant type of family in the U.S (Pew Research Center, 2015). The decline in children living in two-parent families has been offset by an almost threefold increase in those living with just one parent—typically the mother.

There are substantial differences in living arrangements of children by race and ethnicity. Most white (72 percent) and Asian-American (82 percent) children still are being raised by two married parents, as are 55 percent of Latino children. In sharp contrast, only 31 percent of black children are living with two married parents, while

more than half (54 percent) are being raised by a single-parent (Pew Research Center, 2015).

Evidence shows that growing up in a two-parent, married home results in significant benefits to children's outcomes and life chances, including better physical and mental health, higher future wages and social ties, and college completion (Kearney, Levin 2017). One explanation for the growing marriage gap between whites and blacks and the decline in two parent families among blacks is the shortage of marriageable black men (Darity and Myers, 1995). The supply of marriageable black men – measured as the ratio of unmarried males in the labor force or in school to unmarried females – may help explain the rate of black single mother households and their reduced marriage opportunities.

Research reveals that the rise in single motherhood is possibly driven by different mechanisms for blacks and whites (Craigie, Myers Jr, and Darity, 2017). The paucity of marriageable males in the black community may in part be due to higher rates of incarceration and early death (Hamilton, et al. 2009; McLanahan and Jencks, 2015). On the other hand, white women have more plentiful options for marriage. There is statistical evidence that the greater lack of marriageable men is responsible for the persistence of never-married motherhood among black women. (Craigie, Myers Jr, and Darity, 2017).

*The increasing rate of single parent households is often invoked to explain growing inequality, and the prevalence of black single motherhood is often seen as a driver of racial wealth inequities. These explanations tend to confuse consequence and cause and are largely driven by claims that if blacks change their behavior, they would see marked increases in wealth accumulation. This is a dangerous narrative that is steeped in racist stereotypes.*

Single motherhood is a reflection of inequality, not a cause. White women still have considerably more wealth than black women, regardless whether or not they are raising children. In fact, single white women with kids have the same amount of wealth as single black women without kids. Recent research also reveals that the median single-parent white family has more than twice the wealth of the median black or Latino family with two parents. These data show that economic benefits that are typically associated with marriage will not close the racial wealth gap (Traub et al. 2017). Having the “ideal” family type does not enable black households to substantially reduce the racial gulf in wealth

A prominent explanation for the decline in marriage among blacks and its negative consequences is that the decline is a culturally driven phenomenon. For the last half century, American social scientists and policymakers have treated the causes of poverty as largely cultural, and centers single mother families as perpetuating a “culture of poverty.” Since the 1965 Moynihan report, *The Negro Family: The Case for National Action*, there is a conventional discourse that alleges self-detrimental behaviors stemming from legacies of discrimination and concentrations of poverty within the black community are the main cause for observed racial differences in quality and quantity of life.

Moynihan racialized and gendered poverty. In his view, the persistence of poverty was due to the disproportionate presence of black families with female heads, leading, in turn, to the entrapment of black families in a notorious “tangle of pathology.” This long-standing narrative still permeates the national discourse on poverty and economic security, and it often has been used to advance the argument that black families are insufficiently disciplined and responsible to merit better economic conditions.

Explanations that focus on behavior and so-called cultural factors also miss the point that retained wealth is a driving force for education, employment, and income outcomes.

Rather than simply being shaped by family structure, wealth actually shapes family structure as well. Social demographers point to the phenomenon of assortative mating, where persons of similar social status and resources tend to join as marital partners. The proportion is rising of persons with higher education and higher levels of income and wealth who marry one another.

Figure 5: Median Household Net Worth of Women by Age, Family Structure, College Education and Race, 2013

AGE	No Bachelor's Degree				With Bachelor's Degree			
	MARRIED		SINGLE		MARRIED		SINGLE	
	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE	BLACK	WHITE
20-29	\$4,000	\$13,000	\$0	\$2,000	\$7,700	\$18,700	-\$11,000	\$3,400
30-39	\$12,000	\$33,450	\$0	\$0	-\$20,500	\$97,000	\$0	\$7,500
40-49	\$22,501	\$60,000	\$1,000	\$3,006	\$12,000	\$195,000	\$6,000	\$25,000
50-59	\$38,000	\$155,000	\$2,000	\$8,200	\$198,000	\$430,000	\$9,500	\$117,500
60+	\$89,500	\$344,700	\$12,000	\$60,000	\$424,000	\$778,000	\$11,000	\$384,400

Source: Zaw, Khiang, Jhumpa Bhattachayra, Anne Price, Darrick Hamilton and William Darity, Jr. *Women, Race and Wealth* Samuel DuBois Cook Center for Social Equity and the Insight Center for Community Economic Development 2017.

*However, marriage does little to help equalize wealth among white and black women with a college degree. For example, married white women without a bachelor's degree are in households where they have more than two and a half times the wealth of married black women with a degree. Racial wealth disparities widen among married women with a bachelor's degree; married white women are in households that have more than five times the amount of wealth as their black counterparts (Zaw et al. 2017). White households with a single white parent have more than two times the net worth of two parent black households (Traub et al. 2017).*

Evidently, having the “ideal” family structure does not substantially narrow the racial gulf in wealth for black America.

Wealth inequality and insecurity cut across family types and most of the measurable inequality occurs within demographic categories. Research from the St. Louis Federal Reserve finds the connection between family structure and wealth to be weak and inconsistent. The St. Louis Fed's researchers conclude that "any correlation between family structure and wealth that exists in aggregate data is largely spurious." (Emmons and Ricketts 2017).

Our nation's underlying economic structure is supported by harmful narratives and unequal access to assets which begets unequal opportunities to preserve or increase wealth to be passed on to subsequent generations. It is time to move beyond these fallacies and confront the root causes of the racial wealth gap. Otherwise we will whistle in the wind, and the racial wealth gap will remain unchallenged.

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The Cook Center is a research initiative whose mission is the comparative, cross-national investigation of inter- group disparities and the assessment of existing policies and design of new policies to eliminate such disparities. Utilizing an interdisciplinary approach, Center scholars not only address the overarching social problem of general inequality, but also explore social problems associated with group-based (gender, race, ethnicity, religious affiliation) disparities and conflict.



Founded in 1969, The Insight Center for Community Economic Development is a national, research, consulting and legal organization dedicated to helping people and communities become and remain economically secure. The driving force behind all of our work is to expose hidden truths to address root causes of economic exclusion and racial inequity. We aim to challenge current inequitable power structures so that everyone can fully participate in the economy, and have the freedom to bring their full selves to our diverse nation.



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