The Hidden Cost of Being African American
How Wealth Perpetuates Inequality

Thomas M. Shapiro
The hidden cost of being African American: how wealth perpetuates inequality / Thomas M. Shapiro.

p. cm.
Includes bibliographical references and index.
1. African Americans—Economic conditions.
2. African Americans—Social conditions—1975—.
6. United States—Economic conditions—2001—.

E185.8.S53 2004
330.973’0089’96073—dc21 2003046742

1 3 5 7 9 8 6 4 2

Printed in the United States of America
on acid-free paper
Introduction

At the Assets Crossroads

I met Frank and Suzanne Conway during the late-afternoon rush hour at a restaurant in Los Angeles. Recently laid off from a communications marketing firm and now taking courses to become certified to teach elementary school, Frank arrived after picking up their daughter, Logan, from day care. Suzanne arrived from her job as an operations supervisor for a money management company. The Conways loved their home in the diverse urban neighborhood of Jefferson Park, near the University of Southern California, but were gravely concerned about sending Logan to weak public schools. They talked to me at length over coffee about this community-school dilemma, their high educational hopes, and their future plans. The Conways’ story and their solution to their dilemma turned out to be more common than anticipated. Because they receive generous help from their families, they are considering moving to a suburban community with highly regarded schools. Home prices there start at four times those where they live now, and Logan would grow up and go to school in a far more homogenous community—family wealth makes these decisions logical and desirable for some families.

Of course, as with the nearly one in three American families without financial assets, many of the family interviews did not brim over with optimistic choices and options but rather turned on how lack of family wealth severely restricts community, housing, and schooling opportunities. Like the Conways, Alice and Bob Bryant work at professional jobs and earn a middle-class income, but they do not have access to family wealth—they are asset-poor. Living in the working-class Dorchester section of Boston, they are frustrated about their inability to afford to move to a neighborhood with better schools. Doing the best they can, they are highly aware that their son, Mathew, attends only “halfway
decent schools” and is not getting the “best education.” The Bryants’ hopes for Mathew are no different from the Conways’ for Logan. What is different is their capacity to follow through on their hopes and deliver opportunities. The Conways are white and the Bryants are black. Because their incomes, professional status, and educations are nearly identical, conventional wisdom suggests that race should be at most a minor factor in opportunities available to these two families, but we will see tangible connections between family assets and race. Differing family asset capacity, which has more to do with race than with merits or accomplishments, most likely will translate into different worlds for Mathew and Logan.

Demonstrating the unique and diverse social circumstances that blacks and whites face is the best way to understand racial differences in wealth holding. The ideas I develop in this book also push the sociology of wealth in another important direction, namely, an exploration of how the uses of wealth perpetuate inequality. Together, wealth accumulation and utilization highlight the ways in which the opportunity structure contributes to massive racial wealth inequality that worsens racial inequality.

My argument is grounded in three big ideas. First, I argue that family inheritance and continuing racial discrimination in crucial areas like homeownership are reversing gains earned in schools and on jobs and making racial inequality worse. Family inheritance is more encompassing than money passed at death, because for young adults it often includes paying for college, substantial down-payment assistance in buying a first home, and other continuing parental financial assistance. Consequently, it is virtually impossible for people of color to earn their way to equal wealth through wages. No matter how much blacks earn, they cannot preserve their occupational status for their children; they cannot outearn the wealth gap. Many believe that African Americans do not do as well as whites, other minorities, or immigrants because they spend too much money rather than save and invest in the future. They are unable to defer gratification, do not sacrifice for the future, and consume excessively. We will see how the facts speak otherwise. Second, these inheritances frequently amount to what I call transformative assets. This involves the capacity of unearned, inherited wealth to lift a family economically and socially beyond where their own achievements, jobs, and earnings would place them. Third, different rules that will ultimately permit assets to transfer for them for dollars to buy, the children attend disadvantaged mechanisms.

Homeownership I explore how
We are a nation 68 percent, important way families services, and Homeownership hence examples of discrimination, substantial segregation, and appreciation of homeownership is how well a family’s civic participation acquire housing and of race play. Understanding this contributes to the importance

These biases facing African were frozen in one of the last 30 years many battling national communities. Yet we live in this new era...
place them. These head-start assets set up different starting lines, establish
different rules for success, fix different rewards for accomplishments, and
ultimately perpetuate inequality. Third, the way families use head-start
assets to transform their own lives—within current structures that reward
them for doing so—has racial and class consequences for the homes they
buy, the communities they live in, and the quality of schools their chil-
dren attend. The same set of processes typically advantages whites while
disadvantaging African Americans. My family interviews point to critical
mechanisms of denial that insulate whites from privilege.

Homeownership is one of the bedrocks of the American Dream, and
I explore homeownership as a prime way of delving into these big ideas.
We are a nation of homeowners. In 2002 the homeownership rate was
68 percent, a historic high. Homeownership is by far the single most
important way families accumulate wealth. Homeownership also is the
way families gain access to the nicest communities, the best public
services, and, most important for my argument, quality education.
Homeownership is the most critical pathway for transformative assets;
hence examining homeownership also keeps our eyes on contemporary
discrimination in mortgage markets, the cost of home loans, residen-
tial segregation, and the way families accumulate wealth through home
appreciation, all of which systematically disadvantage blacks. Home-
ownership appears critical to success in other areas of life as well, from
how well a child does in school to better marital stability to positive
civic participation to decreased domestic violence.1 How young families
acquire homes is one of the most tangible ways that the historical legacy
of race plays out in the present generation and projects well into future.
Understanding how young families can afford to buy homes and how
this contributes greatly to the racial wealth gap brings us back full circle
to the importance of family legacies.

These big ideas help us understand one of the most important issues
facing America as we start the twenty-first century. African Americans
were frozen out of the mainstream of American life over the first half
of the last century, but since 1954 the civil rights movement has won
many battles against racial injustice, and America has reached a broad
national consensus in favor of a more tolerant, more inclusive society.
Yet we live with a great paradox: Why is racial inequality increasing in
this new era?
The Context of Rising Inequality

To fully appreciate the decisions American families like the Conways and Bryants face, we need to understand the extent, causes, and consequences of the vast increase in inequality that has taken place since the early 1970s. Inequality has increased during both Democratic and Republican administrations. Those at the top of the income distribution have increased their share the most. In fact, the slice of the income pie received by the top 1 percent of families is nearly twice as large as it was 30 years ago, and their share now is about as large as the share of the bottom 40 percent. This is not news. In Nickel and Dimed, liberal critic Barbara Ehrenreich tells her story of working at low-skill jobs in America’s booming service sector, jobs like waitressing, cleaning houses, and retail sales. These are the fastest-growing jobs in America, and they highlight our current work-to-welfare reform strategy. Ehrenreich’s experiences illustrate how hard it is to get by in America on poverty wages. More than anything else, perhaps, Ehrenreich’s personal experiences demonstrate that in today’s America more than hard work is necessary for economic success. I talked to many families who live these lives for real, and we will see how rising inequality makes assets even more critical for success.

In Wealth and Democracy, conservative strategist Kevin Phillips argues that current laissez-faire policies are pretenses to further enrich wealthy and powerful families. Rather than philosophical principles, conservative policies of tax cuts for the wealthy, gutting the inheritance tax, and less business regulation favor wealth and property at the expense of middle-class success. The Bush administration’s gradual phase-out of the estate tax privileges unearned, inherited wealth over opportunity, hard work, and accomplishment. President Bush’s 2003 tax stimulus package carved 39 percent of the benefits for the wealthiest 1 percent. I will broaden the discussion of rising inequality by bringing family wealth back into the picture. Phillips concludes his book with a dire warning: “Either democracy must be renewed, with politics brought back to life, or wealth is likely to cement a new and less democratic regime—plutocracy by some other name.”

An ideology that equated personal gain with benefits to society accompanied the great economic boom of the last part of the twentieth century. Even though inequality increased in the past 20 years, despite
loud words and little action, policies such as affordable housing and equitable school funding that challenged that mindset simply had no chance of getting off the ground. Ironically, historically low unemployment rates went hand-in-hand with rising inequality in an America where hard work no longer means economic success. Success includes harder work, less family time, and probably more stress. The average middle-income, two-parent family now works the equivalent of 16 more weeks than it did in 1979 due to longer hours, second jobs, and working spouses. The years of economic stagnation subsequent to the boom produced a dramatic increase in the number of working poor, and working homeless families are a growing concern. Since late 2001, in a period marked by a declining stock market and rising unemployment, an abundance of data has provided strong evidence that lower-income households are under severe economic stress: Personal bankruptcies, automobile repossessions, mortgage foreclosures, and other indicators of bad debt all reached records in 2002.

What is the role of wealth and inheritance in rising inequality? The baby boom generation, which grew up during a long period of economic prosperity right after World War II, is in the midst of benefiting from the greatest inheritance of wealth in history. One reliable source estimates that parents will bequeath $9 trillion to their adult children between 1990 and 2030. Given this fact, it is no wonder that an already ineffective estate tax (due to tax planning, family trusts, and loopholes), which takes 50 percent of estates worth more than $1 million, came under such ferocious political attack during the second Clinton administration and has been effectively repealed by the Bush administration.

This wealth inheritance will exacerbate already rising inequality. Economists Robert Avery and Michael Rendall presented a benchmark statistical study in 1993 showing that most inherited wealth will be pocketed by only a few. According to the study, one-third of the money will go to 1 percent of the baby boomers, who will receive about $1.6 million apiece. Another third, representing an average bequest of $336,000, will go to the next 9 percent. The final slice, divided by the remaining 90 percent of the generation, will run about $40,000 apiece. We will see how this baby boomer inheritance not only fuels inequality but also intensifies racial inequality. Few people now talk about the
profound effects—economic, social, and political—of that widening gap. We can argue for the privilege of passing along more unearned inequality, or we can take a stand for fairness and equality.

**The Context of Racial Inequality**

Writing at the beginning of the twentieth century, historian W.E.B. Du Bois emphatically declared that the problem of the century was the problem of the color line. Writing again at midcentury, Du Bois reviewed what African Americans had accomplished in education, civil rights, voting rights, occupation, income, housing, literature and arts, and science. African Americans had made progress, he noted, although it was unequal, incomplete, and accompanied by wide gaps and temporary retreats. At about the same time that Du Bois was penning his assessment in a black newspaper, the Pittsburgh Courier, the Nobel economist Gunnar Myrdal published the widely read *An American Dilemma*. This influential and lengthy study documented the living conditions for African Americans during the first half of the century, revealing to many for the first time the impact of systematic discrimination in the United States. These two giants helped to define racial inequality in terms of equal opportunity and discrimination and to place these issues at the heart of a nation's concern. The twisted, politically narrow, and bureaucratically unfortunate notion of "affirmative action" substituted for equal opportunity by century's end, and affirmative action continues to frame our hopes and distrust regarding race. Even though the struggle for equal opportunity is far from completed, the single-minded and narrow focus on affirmative action forces compromises with our past, obscures our present understanding of racial inequality, and restricts policy in the future.

Du Bois and Myrdal correctly identified a color line of opportunity and discrimination at the core of the twentieth-century racial equality agenda in the United States. The agenda in the twenty-first century must go further to include the challenge of closing the wealth gap, which currently is 10 cents on the dollar, if we are to make real progress toward racial equality and democracy. Understanding the racial wealth gap is the key to understanding how racial inequality is passed along from generation to generation.
Introduction

The enigma of racial inequality is still a festering public and private conversation in American society. After the country’s dismantling of the most oppressive racist policies and practices of its past, many have come to believe that the United States has moved beyond race and that our most pressing racial concerns should center now on race-neutrality and color-blindness. Proclaiming the success of the civil rights agenda and the dawning of a postracial age in America, books by Shelby Steele, Abigail and Stephan Thernstrom, and others influenced not only the academic debates but elite and popular opinion as well. Indeed, a review of the record shows impressive gains, most particularly in the areas of law, education, jobs, and earnings. Even though progress is real, this new political sensibility about racial progress and equality incorporates illusions that mask an enduring and robust racial hierarchy and continue to hinder efforts to achieve our ideals of democracy and justice.

In fact, we can consider seriously the declining economic significance of race because the measures we have traditionally used to gauge racial inequality focus almost exclusively on salaries. The black-white earnings gap narrowed considerably throughout the 1960s and 1970s. The earnings gap has remained relatively stable since then, with inequality rising again in the 1980s and closing once more during tight labor markets in the 1990s. The average black family earned 55 cents for every dollar earned by the average white family in 1989; by 2000 it reached an all-time high of 64 cents on the dollar. For black men working full-time, the gains are more impressive, as their wages reached 67 percent of those of fully employed white men, up from 62 percent in 1980 and only 50 percent in 1960. How much the racial wage gap has closed, why it has closed, and what it means are the subjects of academic and political debate. One study, for example, argues that the racial wage gap is really 23 percent higher than the official figures because incarceration rates hide low wages and joblessness among blacks. At comparable incomes, more African American family members work to earn the same money as white families. Working longer hours and more weeks per year means that middle-income black families worked the equivalent of 12 more weeks than white families to earn the same money in 2000.

The tremendous growth of the black middle class often is cited as a triumphant sign of progress toward racial equality. Indeed, the raw numbers appear to justify celebration: In 1960 a little more than three-
quarters of a million black men and women were employed in middle-
class occupations; by 1980 the number increased to nearly three and a
third million; and nearly seven million African Americans worked in
middle-class jobs in 1995. This impressive growth in achieving
upward mobility, however, does not tell the whole story, as some argue
that stagnating economic conditions and blacks’ lower-middle-class
occupational profile have stalled the march into the middle class since
the mid-1970s.

The real story of the meaning of race in modern America, however,
must include a serious consideration of how one generation passes
advantage and disadvantage to the next—how individuals’ starting
points are determined. While ending the old ways of outright exclu-
sion, subjugation, segregation, custom, discrimination, racist ideology,
and violence, our nation continues to reproduce racial inequality, racial
hierarchy, and social injustice that is very real and formidable for those
who experience it. This book will explore the bedrock of racial
inequality.

In law, in public policy, in custom, in education, in jobs, in health,
indeed, in achievements, one could argue that America is more equal
today than at any time in our past. Analysts and advocates scour the
annual release of official government statistics on income to detect the
latest trends in racial inequality. Traditional measures of economic well-
being and inequality, such as income, education, and jobs, show
authentic and impressive progress toward racial equality from the mid-
1960s through the early 1980s and stagnation since. This is not to
suggest by any stretch of the imagination that we have seen the dawning
of the age of racial parity in the United States, because, indeed, wide
racial gaps and discrimination persist in all of these domains. Employ-
ment discrimination, educational discrimination, environmental
discrimination, and discriminatory immigration, taxation, health,
welfare, and transportation policies continue. Despite the passage of
major civil rights reforms, most whites and blacks continue to live in
highly segregated communities. To achieve perfectly integrated com-
munities, two-thirds of either all black or all white residents would have
to move across racial boundaries. The same indicators show too that
progress toward racial equality has halted since the early 1980s. Vast
wealth differences and hence enormous disparities in opportunities
remain between equally achieving and meritorious white and black families. Progress made since the early 1960s has stalled short of equality. Familiar for Du Bois and Myrdal is the dilemma that, despite narrowed gaps in so many important areas, new generations of whites and blacks still start with vastly different sets of options and opportunities. An asset perspective examines a modern element of the American dilemma: Similar achievements by people of similar abilities do not yield comparable results.

**The World of Assets**

*Inheritance and Transformative Assets*

Sometimes an over-the-top public incident crystallizes our understanding of the causes and consequences of inequality. Yet, if the story seems outlandish and exaggerated, it also serves what sociologists call a boundary-setting function; that is, it pushes society’s moral boundary line between what we consider right and wrong further toward an extreme edge. The Jack Grubman tale is a perfect example. Grubman, a securities analyst for Citigroup Corporation, lowered Citigroup’s stock rating for AT&T. Citigroup’s CEO wanted further business dealings with AT&T, and since he knew that AT&T was very sensitive about its stock rating, he suggested that Mr. Grubman take a fresh look. Upon the urging of his boss, Mr. Grubman’s new evaluation restored AT&T to its previous rosy status, and the two Fortune 500 corporations did more business with each other.

In return, Citigroup pledged $1 million to the 92nd Street Y, which also runs an exclusive nursery school in Manhattan, to secure admission for Grubman’s twin daughters to a program that had previously turned them down. Newspapers and magazines had a lot of fun writing about upper-class corruption, upper-middle-class ultra-anxiety about schools, and the connections necessary for getting 2-year-olds into the right preschools. Indeed, there seemed to be a lot of sympathy for a family doing everything they could to put their children on the road to success; after all, the right preschools lead to the right private schools, which lead to Ivy League colleges. The problem was the million dollars, the connections, and the fix. My perspective is different because an outlandish amount of money is not the only issue and diverts attention
away from critical practices. An asset perspective examines how families routinely use financial resources for purposes very similar to Mr. Grubman's to gain significant advantages.

This book will highlight the crucial role that private family wealth plays in our communities and in our schools to perpetuate inequality from one generation to the next. I will argue that because of these dynamics—which have virtually nothing to do with achievement or merit—racial inequality is increasing and will continue to increase as long as present practices remain unchanged. While the U-turn in racial progress has many sources, I will present evidence that inherited money, particularly the way families use it to achieve and maintain class and community status and provide educational advantage, plays a primary role in reversing hard-earned, merit-based racial progress in jobs and income. Continuing institutional bias and public policy, along with family legacies, subvert advancements in the classrooms and on the job. Before World War II, only the children of upper-class American families received substantial inheritances, and we continue to view such legacies primarily as the sole province of the upper class. In fact, as a result of the tremendous postwar economic prosperity and public policies promoting middle-class homeownership, today inheritances are commonplace for middle-class families. Our traditional idea of inheritance involved wills, large estates, and trusts, distributing assets after death, among a fortunate few wealthy families. We will not only examine how much more commonplace inheritance is among the middle class, but we will also expand the common notion of inheritance to include down payments and closing costs for first-time homebuyers, college tuition payments, large cash gifts, and loans, as well as old-fashioned bequests at death.

To get a better analytic handle on this phenomenon, I will use the concept of *transformative assets*: inherited wealth lifting a family beyond their own achievements. This concept of transformative assets is not meant to belittle achievements or successes of families who inherit significant amounts, but it does suggest that in many cases there is something else involved. Many of the families I spoke to relied on transformative assets to acquire their class standing, social status, homeownership, the kind of community they live in, and their children's schooling.

When we look at assets rather than just earnings, we recognize that
financial resources beyond a weekly paycheck are an essential building block of a family’s capacity to better itself, create and take advantage of opportunities, feel secure economically and take risks, and identify itself. Most Americans survive on their incomes while assets feed dreams of a better life, offer hope for the future, and are the key resources for launching upward mobility, as well as providing important real and psychological safety nets. Focusing on assets also allows us to consider how the historical legacy of the past acts upon the present and, possibly, the future. It provides insight into the persistence of racial inequality into the modern post-civil-rights era by exploring how families use their assets to build and maintain adequate standards of living and how they attempt to secure advantageous opportunities for them and their children.

Class and Racial Identity

A family’s assets, consisting of financial resources like savings accounts, stocks, bonds, home equity, and other investments, are not merely means through which they measure success or make a life. These assets also define a family’s community and class status and racial identity. Our conversations with families will illustrate how they use assets to establish class, community, and race boundaries. While it is no longer legal to deny access to housing based on race, there is no law against keeping out people who cannot afford a mortgage and thus hoarding community and educational opportunities. The home we own, how big that home is, and its location are key statements in our class identity. Immigrants, Asian Americans, Hispanics, and others form racial identities in large measure by the characteristics of the communities they live in. For example, Hispanics who live in predominantly upper-middle-class white communities and whose children attend white schools are far more likely to be treated as and identify as white than those living in poor nonwhite communities. In contrast, African Americans can use assets to achieve class status, but where they live has little consequence for their racial identities. Widespread residential segregation further restricts African American families from using assets to break out of racial boundaries.

Assets give families the capacity and flexibility to act and the capacity to engage more fruitfully and meaningfully with the world, enhancing
their ability to improve their place in it. Families use assets to create opportunities that others do not have, such as moving to neighborhoods with better schools, providing cultural and social experiences for their children, making career changes, or taking advantage of business opportunities. By focusing on the central role of assets, I hope to bring new insight to the ways in which families’ assets often determine their ability to choose communities and schools for their children. I will examine closely the relationship between how families use their assets and persistently high levels of residential and educational segregation. I will be looking at how families use assets to solidify their class standing and how differences in wealth set whites and blacks farther apart. This asset framework underscores how asset acquisition and asset building in the context of modern American life defines social class and race in a way that more often than not reproduces the inequalities of the past. I focus in this book on how wealth perpetuates racial inequality, yet I also will be mindful of how wealth perpetuates class inequalities among both whites and African Americans.

Assets, Freedom, and Segregation

The sociologist Georg Simmel writes that money is central to every aspect of life and culture. He calls money “the frightful leveler” because it strips the core and value away from everything, leaving only a scorecard of accomplishment. Money tends to neutralize the relevance of other roles, such as family, religion, and political party. It is a frightful leveler because value is established in terms of how much, not the position or characteristics of individuals. The acquisition and accumulation of money also allows people the freedom (within constraints) to choose how, when, where, and with whom to use their money to satisfy needs and fancies. People with money also are freer from the will of others and can elude more easily the limits of weak or undesirable public policy. This marketplace notion of success means that those with more assets have more freedom and liberty. They can thus exercise the freedom to buy out of neighborhood problems like crime, weakly supported public services, or undesirable levels of integration. This rampant sense of individualistic freedom and liberty clashes with the collective social injustice of racial inequality. Freedom exercised by
money also produces a privatized notion of citizenship in which communities, families, and individuals try to capture or purchase resources and services for their own benefit rather than invest in an infrastructure that would help everyone.

Many whites continue to reap advantages from the historical, institutional, structural, and personal dynamics of racial inequality, and they are either unaware of these advantages or deny they exist. Black Americans in particular pay a very steep tax for this uneven playing field and outcome, as well as for the denial of white advantage. In housing markets, for example, we will see that it is harder for equally creditworthy black families to qualify for home mortgages, that blacks receive far less family financial assistance with down payments and closing costs, that black homeowners pay higher mortgage rates, and that homes in African American communities appreciate less in value. Many whites either refuse to acknowledge these advantages or are unaware of them, and this inhibits our national dialogue and forestalls a national reconciliation.

Social justice, in my view, requires coming to grips with the ways in which inequality passes from generation to generation for people of all races. My interviews reinforce the wisdom of historian George Lipsitz's observation that modern racism often is seen in universal or neutral terms without any personal benefits or overt racist intent. In this way, individuals evade personal responsibility for any resulting inequality. I spoke to many families, for example, who see no paradox in using inherited wealth to leverage advantages and opportunities unavailable to others. Their insistence upon how hard they work and how much they deserve their station in life seems to trump any recognition that unearned successes and benefits come at a price for others. This insistence upon wrapping advantage in the American Dream blurs the difference between thinking you are self-made and being self-made. Coming from families living in homes and communities they can afford only because of inherited wealth, the constant admonitions to the poor to take responsibility betray and distort the dream.

Making Inequality

In the United States, progressives have traditionally seen racial hostility as a strategy fostered by ruling elites to divide people with common
economic interests from joining together to contest their power. My interviews complicate this understanding because they show how a certain quest for middle-class success contributes to racial inequality. Most white middle-class families with whom I spoke emphasized their desire to move up and better themselves; most middle-class black families with whom I spoke seek to better themselves too, but residential segregation, conflicting community-race-class tugs, and lack of family assets make their quest more complicated. The white families I spoke to often sought to improve their children's education by moving to communities with better schools, rather than by improving schools for all children. In the race to secure quality education and competitive advantage, families and communities often treat this valuable resource as a scarce commodity and hoard it. The children of families with resources necessary for such moves receive better educational opportunities along with all of the benefits they bring, but the inferior schools they leave behind continue to teach those unable to move. Part of the paradox is that it is difficult for families with these choices to act differently because to do so would be to act irrationally and outside the strictures of the American Dream.

I talked to many families who face tough choices between what is best for their children and their belief in the American Dream. Through this research, I have come to a sharper understanding about how rational, individual actions like moving to more successful communities to attend higher-quality schools result in further class and racial inequality. Americans have traditionally bettered themselves by moving up. What is different now is the extent to which Americans define good schools and communities in racial terms and how baby boomers use family assets to transform their status. If these observations are accurate, then by presuming that race no longer matters we remain oblivious to disadvantage and sanction racist consequences. The conflict between inheritance and the American value of fair play intensifies in this moment.

Deeply embedded policies, such as those underlying the Federal Housing Administration and locally funded schools, and market incentives, such as property values, shape how we think about neighborhoods, what we mean by integration, and how we think about educational prospects in ways that reward discrimination. Real estate and mortgage markets are highly racialized. Ownership of property is a huge barrier to social mobility and structural inequality.

Building the Dream

My interviews and observations of families designed to manage inequality about inheritance, mobility, and the American Dream, as Bryant, and Rustad (2005) have documented, were a handful of cases. I focused on this case study of Los Angeles in part to add another layer of theoretical clarity to a complex and understudied Coast basin city with a great racial legacy and my interest in more inclusive research.

My conversations with my children and friends have informed this interview. I was living in the quarters of a very good private educational institution designed by white architects, and I was a different student at the University of Hispanic American Studies.
markets and educational environments contribute significantly to the racial wealth gap by structuring racially different opportunities in homeownership, wealth created by homeownership, and educational quality. The point I wish to emphasize here is that in the current structure there is a huge hidden cost of being African American, just as current policies and structures reward the individual actions of many white families.

Talking to Families

My interviews allow me to tell the stories behind how families use assets to expand opportunities for themselves and their children. We designed the interviews to raise questions and elicit answers particularly about family assets, community and school decisions, and inheritance. I got to know Frank and Suzanne Conway, Alice and Bob Bryant, and many other families in the course of interviewing nearly 200 families in Boston, Los Angeles, and St. Louis. I had interviewed a handful of Boston families for my previous book, and I live in Boston, so this city was a logical choice. Likewise, we had a handful of Los Angeles interviews from my previous book, and Los Angeles represents another region and a different urban growth pattern, so it was another logical choice. I chose St. Louis as the third city primarily because of its comparable size and its location, to balance out an East Coast–West Coast bias. Since I do not claim that the families I interviewed represent a random sample of all American families, pragmatics of place and my ability to monitor these sites were more important than all-inclusiveness.

My colleagues and I interviewed white, black, and Hispanic families over the course of a year and a half. We chose families with school-age children because we wanted to focus on families facing critical schooling, housing, and community choices. About half the families we interviewed live in the city, and the other half live in suburbs. Three-quarters of the families are middle class in terms of income, job, or educational criteria; the others are working-class and poor families. I designed the research in this way so I could compare equally situated white and black families to best highlight asset differences and the difference assets make. We interviewed a smaller, supplemental sample of Hispanic families in Los Angeles and Boston. 

22
We worried initially that people would not be open about their financial resources. In this age of relentless telemarketing and intrusive dinnertime sales pitches, who would even allow us the time to ask? We worried that it would be an overwhelming challenge to find and interview families willing to talk to us. We worried too that those who did agree to talk with us would give us “politically correct” answers when we asked searching questions about sensitive topics like race, schools, and community. Almost as soon as we heard the first interviews, however, we knew we had a treasure to mine. The frank nature of the responses, which often crossed politically acceptable boundaries and shocked my interviewers and research assistants, indicated that we had touched something really important in their lives. Most people were willing to talk to us so enthusiastically because they were sharing hopes about their family and children, and people love to talk about their kids. These interviews show in a way that no statistics or survey could how families attempt to use assets to make better lives for themselves, just as they show the disadvantage of not having ample assets.

On average, the interviews took almost two hours each and resulted in about 400 hours of audiotapes to listen to and 7,000 pages of transcribed data to read and analyze. I use family interviews from all three cities, but of the extended family cases I present, the reader will get to know more St. Louis families than those in Boston and Los Angeles. The St. Louis discussions about race, class, community, and schools were the sharpest and bluntest and thus best exemplify these concerns. I think this reflects St. Louis’s sharper race, class, and city-suburban divisions. If I am correct, this means that working- and lower-middle-class St. Louisans have fewer community and school options than Boston or Los Angeles parents.

My colleagues and I designed questions to test ideas about how assets affect opportunities, to find patterns and trends, and to flesh out the whys of families’ asset-behavior, the role assets play in their well-being, and their thinking about assets. Such interviews alone, however, do not establish baseline information about wealth inequality, nor do they allow for the kind of sophisticated statistical analysis that we need to see the big picture. The second source of material supporting this book thus draws on national data sources, especially two surveys of households across the nation that ask systematic questions about family assets and
liabilities. I also needed to get a valid snapshot in time to establish baseline facts about age, education, family, jobs, and income so that I could assess wealth and racial inequality. In addition, the ability to examine families over a period of time is vital to answering some of the most important questions about wealth accumulation. Thus we can explore more fully what accounts for changes in wealth, how families use wealth, and the role it plays in a family’s quest to better itself. The chief advantage of these quantitative data is that we can follow families and watch changes in wealth and examine the effects on family stability, school performance, and risk-taking behavior. This ability to follow a large number of families over an extended period allows a far more thoroughgoing and reliable foundation for my argument. When I bring together my in-depth family interviews with the survey data, I am able to explore the profound importance of assets in shaping modern racial inequality in America. We need both of these databases because, in my estimation, each is most appropriate for different critical tasks.23

Since the mid-1990s, the debate on race and inequality has been shifting to incorporate the challenge of the racial wealth gap. My hope is that this book not only strengthens the legitimacy of this change in our understanding of racial inequality and public policy by exploring how racial inequality is passed along but that it also poses new, serious challenges to the current understanding about equality and public policy. I am arguing nothing less than asset-based public policy. In conjunction with living wages and adequate social assistance, policies that motivate families to accumulate assets for education, homeownership, business development, retirement, and emergencies can best launch family mobility, well-being, and self-reliance. Asset-based public policy, I firmly believe, is one of those new and rare big ideas with the potential of reframing public debate. The distinction between income-based survival policies and asset-based mobility strategies clearly isolates the main shortcoming of contemporary welfare reform policies, which confuse welfare caseload reduction with lifting families out of poverty. Families may understand this better than politicians and academics. I talked to a single mother who called income “life support” and referred to assets as “moving-ahead money.”

No doubt, many readers will be uneasy with the implication that individual white middle-class families benefit from racial inequality. I
am. This was not a starting point for the study. However, I cannot evade the inescapable conclusion that families make important choices that maintain residential and school segregation because it provides benefits and advantages to them personally. Such choices, in turn, help to fortify class and race inequality while passing inequality along to future generations. Discussing my work with friends and colleagues invariably leads them to ask if the study is about them, or to tell the story of why they moved or placed their children in a better school. While the study is not about them we all need to pay attention to how our actions are shaped and the consequences of our actions, if we are to fix undesirable inequality. My concern is about our commitment to equality, social justice, and fairness. A rekindling of these core values requires a tough, bold, critical appraisal of public policies that promote these ideals, instead of actions that continue to move us further away.
The Color of the Safety Net

Vivian and Kathryn

There's nothin' I can do about it. . . . Maybe I might meet a millionaire or somethin', you know, but I doubt that very seriously. I wish that I wasn't in a lot of debt, though, because I had got out of debt, and now I'm back in debt.

VIVIAN ARRORA, 40 YEARS OLD, is the struggling single mother of a young teenage son, Lamar, and 4-year-old twin girls, Bria and Brittany. Vivian, who is African American, grew up in Watts, which is one of the poorest sections of Los Angeles and where about one in every three families falls below the government's poverty line. Several moves have inched her family away from this poverty-stricken black community toward more middle-class West L.A. She tells me she has been attacked and raped several times. With tenacity and determination, she has bootstrapped her family and, as she says, "branched further west, out of a gang-infested area, a drug area." She dreams of owning a house in "peaceful" and middle-class Culver City.

"After I gave birth to the twins, I was just ready to go to work because just receiving AFDC [welfare] just wasn't the thing to do," Vivian begins, "and all my life I've been receiving AFDC." She took vocational classes at a technical school because she "wanted to learn how to do the computer." She completed the program and earned her certificate, acquiring substantial student loans along the way.

The next step was to find a job. "I was out lookin' for a job, and it seemed like nobody wanted to hire me and I got kind of discouraged, and I just kept lookin', I just kept lookin'." A friend then suggested going to a temporary agency.
We went to the temp agency on a Wednesday. It was raining, and we just kept on. We kept on going, and the rain didn’t stop us... I went in on a Wednesday, and they called me that Thursday and told me to start work that Monday. And I’ve been working ever since. And I’m like: Am I really, really ready to go to work? Mentally? But once I started, I just, I’ve been on a roll ever since.

All this occurred two years before we talked. Vivian worked as a temp for a year and then was hired by the county to work full-time, with some medical benefits, processing adoption papers. She is proud of having worked herself off AFDC, declaring, “I’m worth more than 700 dollars a month. I’m worth more than that!” But this clerical work does not pay much—a tad under $20,000 per year, which is about $500 above the official poverty line for her family of four. She may be a poster girl for welfare reform because she successfully transitioned off welfare, but she has joined the swelling ranks of the working poor.

Vivian’s job is very important because it provides skills, habits, stability, and self-worth that she said had not existed before, but she still is very concerned about crime and safety where they live and wants to move into a better place, even own her own home someday. Working hard and bootstrapping her family off welfare has neither lifted her out of poverty nor put the American Dream within her reach. I asked her how she found the neighborhood and apartment where she is living now; her answer reminds us of the fragile and precarious living situations of those without safety nets. She was forced out of her last place with 30 days’ notice, and the family just landed right here. This is not where I really wanted to be, but I was tired when I was looking because I was working full-time, and by the time I got off it was too late to go look, you know, to be out at night, in there with the kids, nobody to baby-sit, so I have to come home and cook. It’s just me. I don’t really like the surroundings. I don’t like the traffic over here either. Sometimes when I come home I see a lot of guys, they hang out down here at the corner.

She would like to buy a home in a safer neighborhood for Lamar and the twin girls. It would be the next step up on her mobility ladder because it would solidify her present stability and provide improved
services for her family and better schools for her children. She faces serious obstacles. She has lots of debt and ruined credit. She does not seem to have the resources or capabilities to work out of her debt trap, at least not on poverty-level wages. Nonetheless, she is thinking about buying a home through a funding program that requires education, training, and clearing her credit. She wonders how she can find the time to do all this while working full-time, because it would mean finding costly day care for Bria and Brittany.

A modest, even small, amount of assets, together with day care provision, would make a huge difference in securing a better future for this resolute full-time working woman and stabilizing this family’s mobility up from poverty. For example, if she had assets put aside, Vivian could acquire job skills and training, and these enhanced skills in turn might well lead to a better-paying job. In the view of mortgage lenders, difficulty in getting out of debt reveals a high credit risk, so if she could get out of debt, she would be in a better position to consider seriously buying a home. Vivian’s story gives us glimpses of the kind of life that so many others like her live. Her struggles anchor a starting point regarding some broader asset themes of this book. Poverty is not merely the lack of adequate income for daily needs and survival; for the Arrora family it means difficulties around community, housing, crime and safety, debt, environment, child care, and schools. While it is no doubt true that there are some people whom no amount of assets could help, because of handicaps or inclination, given how far she has taken the family already, I firmly believe that Vivian Arrora’s family is poised for mobility and self-reliance. Lack of assets holds her back.

Kathryn MacDonald, like Vivian, is in her 40s and earning a salary close to the poverty line. She too is a single mother, but her life struggle tells a very different story. Kathryn works about 30 hours a week as a freelance contractor in publishing, earning approximately $16,000 a year. Her boyfriend left her just before her son, Evan, was born and she has raised him alone. She prefers to work part-time so she can spend part of her day with Evan, who she says has attention deficit disorder. According to her this was a major reason why she moved from New Jersey to St. Louis in 1995.

Kathryn and Evan MacDonald live in Florissant, a traditionally working-class and middle-income community in north St. Louis
County. Kathryn worked at a large publishing house in Manhattan before moving. She grew weary of the city’s frantic work pace, expensive New Jersey housing, and spending so much time away from her son, so they moved. Now Kathryn does the same work in her St. Louis home that she used to do in a Manhattan skyscraper, matching Library of Congress book subject headings to subject titles for publishers. Freelancing half-time at home allows her to spend much more time with Evan and to watch over his educational and social development. She also enjoys the freedom and autonomy of working at home. Kathryn earns a lot less than when she worked full-time in New York, but she is far happier with her life now, even if her earnings only amount to poverty wages. She likes the community and schools, which are largely white.

Kathryn clearly is pleased that things have worked out so well.

_We’re in a good neighborhood. My son can go out to play and I don’t have to worry about what he’s going to get into or who he is going to be encountering. I don’t have to worry about him being abducted. . . . I don’t have to worry too much about drive-by shootings. I don’t have to worry that something terrible is going to happen to him just because he was out on the street._

Kathryn is especially pleased with Evan’s school situation. Evan is smart, just a notch below getting into gifted programs, and the system has special programs for bright kids like him. The school also has understanding and knowledgeable teachers working in small-group settings who can help him overcome his ADD.

Normally, $16,000 does not afford a great deal more than what Kathryn calls “life support,” much less the kinds of services and opportunities available in middle-class communities. What makes Kathryn’s life so different from Vivian Arrora’s? How is she able to live on essentially poverty wages and yet plan for a future that looks to have better prospects? How is she able to live in a place that is safe for herself and Evan? How is Kathryn able to find a school where Evan can thrive? It is not as simple as that one is white and the other is black. The answer is transformative assets.

For one thing, Kathryn is free of debt. Her brother has been sending $100 a month for several years to help her out with Evan’s educational
and day care expenses. She lost a job several years ago, when Evan was 2, but was able to move in with her father for five years. She has no school loans because her family paid her college bills. Even today, unlike the average American, she does not owe any credit card debt.

But her financial stability goes far beyond just lack of debt, Kathryn explains. She has inherited money from her family.

_I have the proceeds from my father's estate, and also my grandmother. I don't even pretend to understand this—my cousin the lawyer handles all this—but if her estate gets to a certain size, she is liable for more estate taxes, so every so often he has to disburse some of that money._

Kathryn tells us that she has already inherited about $125,000, of which about $90,000 remains, and will inherit another $80,000 when her 94-year-old grandmother passes away. “That could be when I buy a house. That could be what pushes me over the top. With that plus with the mortgage I could get, I could get something decent.” She hopes to buy a home with her new boyfriend, who will not be able to contribute much because he pays alimony to a first wife.

When her father died, “the first thing I did was take some money out, and we took a vacation.” When another chunk of money came from her grandmother’s estate, she and Evan took off to a family wedding in Alaska. She dips into the inheritance every few months as bills mount up, especially when her quarterly estimated income tax is due. She is looking into magnet schools and even private schooling for Evan, in case the local public schools cannot continue to meet his special needs and provide an environment in which he can thrive.

If Kathryn MacDonald did not have assets, one might think of her in an entirely different light, and many questions might arise. For instance: What is she doing to better herself? Why is she not working full-time? Why are her ambitions so low? If she were black, the questions might have a harsher tone, and we can imagine the social condemnation and scorn this single mom might face. Although one might question some of Kathryn’s choices, her story is an example of how financial inheritance can provide advantages and a head start in life. Maybe even more important for Kathryn MacDonald, assets supply an anchor for her family's
middle-class status and identity that her work and income cannot.

Vivian Arrora's and Kathryn MacDonald’s stories provide a concrete starting point for considering how racial inequality is passed from one generation to the next. In many ways they are so alike; yet in many other ways their lives are so different. Vivian’s legacy is growing up black in a welfare family in Watts and becoming a single mother herself. She is the first in her family to go to college. The big issues for her are work, debt and bad credit, finding time for the kids, the fear of violence, drugs, and gangs, and figuring out a way to buy a home in a stable and safer community. Hers is a remarkable success story, but her mobility from welfare to working poor may have reached its own limit. Her children go to weak urban schools where getting ahead is a difficult task accomplished only by a few. Lamar, Bria, and Brittany will inherit America’s lack of commitment to equal education for all.

Kathryn’s situation, if not her accomplishments, is very different. She does not worry about drugs, violence, and gangs, the adequacy of the public schools, or finding time to spend with her child. Her upper-middle-class inheritance includes a debt-free present, a substantial amount of assets, and palpable prospects of inheriting considerably more in the near future. Her inheritance, one could argue, includes class standing that sustains her comfortable and respectable middle-class situation. In looking at these legacies and inheritances, we begin to see that family assets are more than mere money; they also provide a pathway for handing down racial legacies from generation to generation.

Finally, Vivian’s greatest dream is to own a home in a safe place with decent schools for her kids. As far as I can tell, this is not likely to happen, unless she actually meets and marries her millionaire—or unless a bold and imaginative policy helps to make her hard work pay off. Kathryn’s dream home most likely will become a reality after her grandmother passes away. The lives and opportunities of their children already are being acted out upon different stages, and the gulf between Evan and Lamar is likely to widen further. What the two boys make of their lives from these different starting points will be their own doing, but let us not delude ourselves that Kathryn and Evan and Vivian, Lamar, and the twins share even remotely similar opportunities.
The Ackerman Family

This is a step up from our starter home. We looked at the city, and the
bottom line was we weren’t happy with the schools. We wanted to be in a
public school in the county. The benefits. The tax benefit; the ownership
and not having a neighbor right on your next wall; privacy. We didn’t
end up here, we chose to be here. We were definitely trying to buy our life
house.

Chris and Peter Ackerman and their three children are middle-class resi-
dents of south suburban St. Louis. Chris is a plant accounting manager,
and Peter is a technical service manager; together their incomes top
$80,000. Through “working and saving, working and saving” they have
built their net worth to more than $100,000. As is true for most
American families, their largest pool of wealth is their home equity,
accounting for about $67,000 of their assets. They also own about
$60,000 in various retirement programs, which, as they note, carry
heavy tax and withdrawal penalties if used before retirement.

In our conversation, Chris and Peter express a keen sense of economic
security and the firm belief that their children have a bright future:
Because they both work for a large organization that promises to pay
college tuition for long-standing employees, they will not have to dip into
their assets or take out loans for college. Like most Americans, they
believe their assets put them right in the middle of the wealth distribu-
tion, but when I tell them they own more than most Americans, Chris
remarks, “Good.”

Because these college graduates come from middle class families, are
not burdened with student loans, and are good credit risks, they were
able to get a mortgage for a classic starter home. Peter’s parents helped
with the down payment, which allowed them to buy in the community
of their choosing. As with many families, the increased property value in
their starter home provided a sizable portion of the down payment when
they moved up to their present suburban home.

It was a pivotal moment for them, as it is for many American fami-
ilies. With three children reaching school age, the Ackermans’ space,
community, and schooling needs were changing and growing. The flex-
ibility families with assets have at these times sorts them and their
children onto different life trajectories from those without assets. Chris begins explaining how they approached these important issues.

I had cousins growing up in the city, and—this is my own blood, but basically they turned out really trashy. Their friends were trashy. [I] did not even want sometimes to bring my own children around my cousins, because their lifestyles were different, their values were different. Things that were important to us were not important to them.

Peter talks about those things that were important to them.

It seemed like the areas we could afford in the city, the neighborhoods were different. One street would be really nice, clean-kept houses, and two streets over there would be boarded-up houses or just really trashy houses. And we just thought, the mix of the group and then all of these people going to the same school, it did not fit with what we wanted for our family.

The Ackermans wanted to live in a community where more people were like them and had the same standards. Community for Chris also means a place where

you are intertwined, with “Hi, Martha” in the store. You see her in the store. Okay, then you go to day care that morning and you see her and her kids, and you say, “Hi, little Timmy,” or, “Hi, little Johnny,” and then you are out on the street and they have got their little lemonade stand or whatever.

Peter and Chris bought a home in a suburban part of St. Louis where nearly everybody owns a home built since the 1950s and families have similar incomes, in the $60,000 to $80,000 range. The community they chose is almost all white; less than one percent blacks and Hispanics live in their zip code. When I ask about the diversity of their community, Peter explains:

It is unfortunate that it is bound by race too. As far as I am concerned, that has nothing to do with it [lack of diversity]. I think it’s economic because it’s the same issue we dealt with when we lived in the city. It didn’t matter if our neighbors were white or black, as long as they had the same standards we had.
The Ackermans' assets—help with the down payment, no college loans, and especially the equity built up from their starter home—along with stable jobs and high-quality benefits allow them to own a home in the suburban community of their choice, one up to their "standards," and to select the kind of schools they want for their kids. Most middle-class families with school-age children face similar school, community, and space issues. Of all the options available to Peter and Chris Ackerman, they chose a segregated suburb and segregated schools. And in later chapters we will see the kinds of strong incentives built into home-owning markets and public policies that reward their choices.

"Worlds Away"

Elizabeth Wainwright Cummings works part-time as an accountant; her husband teaches in the same city schools that drove the Ackermans to the suburbs. Their incomes do not cover their expenses, which include a mortgage on a large, historic home, day care for 4-year-old Anna, and exclusive schooling and private tutoring for 9-year-old Alexander. Their incomes are supplemented by $30,000 a year in interest from an inheritance, and her parents are paying the private school bills. She explains that the family money goes way, way back—it is money her father inherited—and it will last a long time. She already has inherited about $350,000, with "more than a million dollars sitting there with my name on it." Their home is in a suburban school district that she feels is not strong. This didn't matter, she explains, because "we knew we weren't using the school district." Her comment is a good example of a privatized notion of citizenship: Since she can use ample family wealth for her own benefit, she does not have to worry about or invest in the public infrastructure that would help everyone.

Although, "once we are inside our house, we love it," she is wary of her largely middle-class neighborhood, because not all the homes look like hers and some of her neighbors are still at early points in their careers. Elizabeth is planning to move to an upper-class neighborhood that fits her class identity better and where she is more comfortable with the neighbors. As she puts it, she has her "eye on this area really close to our house but worlds away."

Perhaps because she comes from a family that has handed down
money for generations, Elizabeth is conscious of how wealth confers
privileges and advantages. At the end of our conversation, I say that I
have just one last, big, complex question: How do you feel that wealth
has impacted your life?

No question about it. I mean, if my parents hadn’t had the money to send my
kids to [the private] Hills School, we couldn’t have considered it. We would
have had to really do belt tightening, and financial aid, and many more
loans, more mortgages. It would have been very difficult and a real strain on
us, especially with two. And we probably would have felt like we just couldn’t
swing it as a family. So, I don’t know, I would have had to have gone out
and gotten a job that would pay enough to justify two kids in private school.
With that, it would have meant not being able to mother them as much
myself. Or my husband having to change work, and all the soul-searching
that would have meant for him. It’s unimaginable. I can’t envision a path
that we would have been able to so comfortably just sail on over to Hills
School. And, yeah, [we would have had to] go through a lot of heart-
wrenching decisions about Alexander [school and tutors]. But they never
had to do with money. None of these decisions have had to do with money. I
can’t imagine it being any other way.

The world that Elizabeth has trouble imagining includes difficulty
paying a mortgage out of earnings, working full-time, working at a job
you may not like, public school, family budgeting and making choices,
and worrying about money issues. The world she cannot imagine is
reality for most Americans. The Cummings family is a possibly excessive
but nonetheless illustrative example of how a reservoir of wealth
and expected inheritance opens the door to all opportunities and can
make dreams come true more easily.

Families and Safety Nets

Let us ask a question of the four families we have met thus far that pene-
trates further the ways in which assets matter. What if these families lost
their jobs? Vivian Arora has nothing to fall back on and might well find
herself back on welfare or worse. The consequences for Kathryn and
Evan MacDonald, on the other hand, would be less catastrophic. She
could sustain her present lifestyle for several years while progressively
drawing more money from her inherited assets. Soon, however, if they were not replenished from other expected inheritances, she would need to tap her assets for everyday living. Without a full-time or higher-paying job, she would have to postpone becoming a homeowner. The Ackermans' financial assets provide a resource cushion that can absorb economic shocks and personal misfortune. They could survive on their nest egg for some time, but it would mean scaling back the lifestyle they treasure—fewer vacations, giving up their boat—and even then they could not endure a prolonged absence of income. More important, their resources secure a desired status for them and educational opportunities for their children. The wealthy Cummings family probably would not notice the financial impact for a long time because the interest on Elizabeth's inheritance alone gives them more money than Vivian Arorra earns working a full-time job.

The stories of these four families introduce themes that I will weave throughout the text. I want to use the cases just presented to expand the idea of transformative assets. Wealth is critical to a family's class standing, social status, whether they own or rent housing, the kind of community they live in, and the quality of their children's schools. Based upon a thorough familiarity with the textured lives of the families we interviewed, I suggest that it is possible to distinguish whether a family's current position and life trajectory is based upon earnings and achievements, or wealth and family legacies, or some combination. The notion of transformative assets is most trenchant for our purposes when the financial resources that make current status possible are inherited in some fashion. In the families we have heard about already, Kathryn MacDonald provides the clearest example of the power of inherited assets to transform her current position far beyond what she earns. The Cummings family illustrates the old-fashioned and better-understood notion of very wealthy families handing down resources. The Ackerman case is not so clear-cut. They enjoyed a head start because their families paid the college bills, and they received family financial assistance on their first home. At the same time, the Ackermans' assets also represent the fruits of savings and investments based upon their earned achievements in the workplace. Vivian Arorra works as hard as anyone in these four families—and has the least to show for it. Lack of assets, much less family money, caps her family's mobility.

These four accounts highlight the role that assets—or lack of them—
play in a family’s quest for well-being and promoting opportunities for their children. When asked to name the primary benefit of money, 87 percent of affluent baby boomers in one survey answered, “It enables you to give advantages to your children.”

American families are in the process of passing along a $9 trillion legacy from one generation to the next. This is a lot of money, but it is distributed very unevenly. Most whites do not inherit considerable wealth; an even smaller percentage of African Americans benefit. Hand in hand with this money, I submit, what is really being handed down from generation to generation is the profound legacy of reproducing racial inequality. This legacy will be difficult to discern because the language of family heritage hides it from our political consciousness. Mainstream sociological theory sees differences in jobs, skills, and education as the primary causes of inequality, and substantial wealth transfers embarrass this theory. The classical sociologist Emil Durkheim, for example, predicted that family inheritances would decline over time in favor of giving to charitable and nonprofit organizations, but studies examining actual bequests invalidate this prediction.¹ Andrew Carnegie’s belief that giving relatives money only makes them lazy (a belief he put into action) may correspond with this perspective, but the empirical evidence tells a different story. In 1989 charitable bequests constituted less than 10 percent of proceeds of estates valued over $600,000 in the United States.² Even Karl Marx was more concerned with production and the circulation of money than with property and family legacies.

The Asset Perspective

A core part of my argument is that wealth, as distinct from income, offers the key to understanding racial stratification. Thus a wealth perspective provides a fresh way to examine the “playing field.” Indeed, I believe that this perspective challenges a standard part of the American credo—that similar accomplishments result in roughly equal rewards—which needs serious reexamination. First, however, I need to outline this wealth perspective and why I believe it is so important.

By wealth I mean the total value of things families own minus their debts. Income, on the other hand, includes earnings from work, interest
and dividends, pensions, and transfer payments. The distinction between wealth and income is significant because one signifies ownership and control of resources and the other represents salary or its replacement. However, the difference between the two is often muddled in the public mind, and only recently have the social sciences begun to treat wealth as an intrinsically important indicator of family well-being that is quite different from income. Another perspective on advantage and disadvantage emerges when wealth is used as an indicator of racial inequality. Wealth represents a more permanent capacity to secure advantages in both the short and long term, and it is transferred across generations. Income data is collected regularly, and vast stores of it exist. In contrast, wealth data has not been collected systematically, and issues such as how to value a home, how to view home equity, whether retirement plans should be counted, and how to value a business make it harder to measure.

Wealth has been a neglected dimension of the social sciences' concern with the economic and social status of Americans in general and racial minorities in particular. We have been much more comfortable describing and analyzing occupational, educational, and income inequality than examining the economic foundation of a capitalist society, "private property." When wealth surveys became available in the mid-1980s, journalists and social scientists began to pay more attention to the issue of wealth. The growing concentration of wealth at the top and the growing racial wealth gap have become important public policy issues that undergird many political debates but, unfortunately, not many policy discussions.3

Social scientists typically analyze racial inequality as imbalances in the distribution of power, economic resources, and opportunities. Most research on racial inequality has focused on the economic dimension. This economic component has emphasized jobs and wages. Until very recently, the social sciences and the policy arena neglected the effect of wealth disparity and inheritance on the differing opportunities and well-being of white and black families. We are suggesting that wealth motivates much of what Americans do, grounds their life chances, and provides enduring advantages and disadvantages across generations. Wealth ownership is the single dimension on which whites and blacks are most persistently unequal.4
Our understanding of racial inequality comes typically from data on income. Primarily this represents earnings from work, but it also includes social assistance and pensions. Income is a tidy and valuable gauge of present inequality. Indeed, a very strong case can be made that reducing racial discrimination in the workplace has resulted in narrowing the hourly wage gap between whites and racial minorities. Reducing discrimination in jobs, promotion, and pay is an effective way to narrow racial inequality. The average American family uses income for food, shelter, clothing, and other necessities. Wealth is different, and I will argue that it is used differently than income. Wealth is what families own, a storehouse of resources. Wealth signifies a command over financial resources that when combined with income can produce the opportunity to secure the “good life” in whatever form is needed—education, business, training, justice, health, comfort, and so on. In this sense wealth is a special form of money not usually used to purchase milk and shoes or other life necessities. More often it is used to create opportunities, secure a desired stature and standard of living, or pass class status along to one’s children. It is obvious that the positions of two families with the same income but widely different wealth assets are not identical, and it is time for us to take this into account in public policy.

The importance of wealth was borne out in the stories we heard from families about how they think about assets, how they strategize about acquiring wealth, how they plan to use assets, and how they actually use them. I want to emphasize that families consider income and wealth very differently so that wealth is seen as a special kind of money. We asked families directly if they treated wealth differently than income. The pattern of answers is resoundingly affirmative, especially among families with ample assets. Kathryn MacDonald summed it up succinctly by saying, “Income supplies life support, assets provide opportunities.” A middle-class Bostonian put it this way: “My income is limited. My assets I want to hang on to for future needs.” Jen Doucette of Los Angeles, whom we will meet in Chapter 2, captured the thinking of many we interviewed when she said that wealth “is definitely long term. We act as if it’s not even there.” Another person added, “We figure like the income is what we got to work with. Try and live within it.” We asked one Boston family if they ever used assets for expenses, and the answer was a Benjamin Franklinesque scolding:
“Absolutely not. We are New Englanders. Never touch principal. . . . To me income is to pay bills; assets are to keep.”

The way that families with few financial assets replied to questions about the role assets play in their plans to get ahead clearly indicates class differences. Some scoffed or simply laughed at the question because they have no assets to distinguish from income. Even among those with small amounts, though, assets are viewed as resources not to be touched so that they can face emergencies. In fact, we heard the words “emergencies,” “unexpected,” “rainy day,” and “cushion” more often from families who have few or no assets than from families with more. These families view their limited assets as cushions or safety nets against unexpected events like paying for a child’s orthodontic work that is not covered on the family health policy or family crises like helping a recently unemployed sister pay her rent, not as tools of opportunity. Working-class and poor families use wealth for life support, to cushion bad times, and to meet emergencies. Middle-class families, in contrast, use their assets to provide better opportunities that advantage them. In our conversations about the power of assets, working-class and asset-poor families dream that assets will give them freedom from a situation, ease a difficulty, relieve a fear, or overcome a hardship. Middle-class and asset-wealthy families see assets as power and freedom to leverage opportunities.

I have made much of the distinction between income and wealth, but this would only be an academic distinction if the two were highly correlated, that is, if a family’s income were a reliable predictor of its wealth, and if savings were the primary source of wealth accumulation. If this were the case, we could continue to tell the income story as a sort of proxy for all resources, as we have in the past. If they are not powerfully correlated, however, fusing them prevents us from addressing an important basis of racial inequality, the increasing concentration of wealth, and public policies that mitigate the consequences of such inequalities. Sociologist Lisa Keister’s Wealth in America reviews this issue and concludes that the correlation between income and wealth is weak. This suggests that, according to Keister, “studies that focus solely on income miss a large part of the story of advantage and disadvantage in America.”

Because wealth sometimes represents inequalities from the past, it not only is a measure of differences in contemporary resources but also suggests inequalities that will play out in the future. Looking at racial
inequality through wealth changes our conception of its nature and magnitude and of whether it is declining or increasing. Most recent analyses have concluded that continuing racial inequality primarily results from disparities in educational achievement and jobs. Sociologist Christopher Jencks, for instance, argues that improving educational performance for African Americans would be the biggest step toward racial equality. William Julius Wilson has consistently maintained in several books that advances in the workplace are the linchpin of racial equality. The asset perspective does not neglect the importance of these powerful insights. I maintain, however, that exclusively focusing on contemporary class-based factors like jobs and education disregards the currency of the historical legacy of African Americans. A focus on wealth sheds light on both historical and contemporary impacts not only of class but also of race. Income is an indicator of the current status of racial inequality; I argue that an examination of wealth discloses the consequences of the racial patterning of opportunities.

The legacy of the American dilemma of democracy and race continues to haunt the American scene. The dynamics of race and class intertwine in a way that becomes more clearly explicable upon examining how families use private wealth to expand their chances and—just as important—how lack of assets dampens aspirations. Americans highly value two cherished but contradictory notions: equal opportunity and a family's ability to pass along advantages to their children. By focusing on assets rather than exclusively on income, we can unravel this legacy and examine how it affects racial inequality.

In summary, I argue that we have been seriously underestimating racial inequality by focusing primarily on workplace and income and that an examination of wealth is an indispensable part of understanding inequality. Tragically, polices based solely in the workplace that seek to narrow differences will fail to close the breach. Taken together, however, asset and labor market approaches open new windows of possibility, an approach I will elaborate in the closing chapter.

**An Asset Poverty Line**

One of the disappointments of attempts to allay poverty is that policies only consider jobs and transfers that substitute for income. Changing
the lens of analysis to wealth dramatically shifts our perspective on poverty and gives us new tools. The official poverty rate, based on annual income, dropped from 15.2 percent in 1983 to 12.8 percent in 1989 and to 11.7 percent in 2001 ($18,104 for a family of four). Using these numbers we could say that the rising tide of the long boom during the 1990s seemed to lift many, if not all, boats. The government releases these official numbers annually, and they give us a good idea of the scope and nature of poverty for that year.\(^7\) But sociologist Mark Rank suggests that to understand the true nature of poverty, we must see it in a different light.\(^8\) He argues that we should be looking at American families that will experience at least one year of poverty. Poverty touches a surprisingly high number of Americans, as 59 percent will spend at least one year below the official poverty line. While this number puts the economic fragility of America’s families in a new light, the shocking statistic is that nine of every ten black Americans will encounter poverty during their working adult years.

If we think about poverty as a lifetime event and shift the perspective to examine family assets, our understanding of poverty and inequality and what needs to be done changes dramatically. And, as we will see shortly, the asset-poverty perspective captures the fragile economic status of American families, embracing nearly two in five families and over half of all African American families.

The Nobel economist Amartya Sen highlights the affect of asset-poverty on the ability to avoid elementary deprivations including premature mortality, significant undernourishment, persistent illness, widespread illiteracy.\(^9\) His argument is that poverty is more than just lacking an adequate income; rather, poverty includes lacking the basic capacities for building and sustaining a better life.

The Asset Poverty Line (APL) helps us understand the asset condition of American families. (See Figure 1.1, page 39.) The fundamental idea is to determine an amount of assets a family needs to meet its basic needs over a specified period, under the extreme condition that no other sources of income are available. We decided to tie this figure to the official income-poverty standard. In 1999 the official U.S. government poverty line for a family of four stood at $1,392 a month. In order to live at that poverty line for three months, a family of four needs a private safety net of at least $4,175. Families with less than
$4,175 in net financial assets in 1999, then, are “asset-poor.” And this is a conservative standard because it incorporates the official government poverty line, which many believe underestimates the actual scope of poverty, as the basis for our calculation. It also employs a three-month standard even though one could argue just as reasonably for a six-month standard. Although I believe my built-in assumptions underestimate asset poverty among America’s families, I want to stay focused on the basic idea of asset poverty. It is my hope that as these ideas are accepted, bolder conceptions will follow.

The APL measure allows an examination of asset-poor families since 1984, so we can track trends in asset wealth. *Black Wealth/White Wealth* reported the rate of asset poverty in America for 1988, and the result was truly appalling. One could argue that it has gotten even worse since. In 1984, 41 percent of American families fell below the Asset Poverty Line; and the rate held fairly stable until it dipped several points to 36 percent in 1999. Nearly four households in every ten in the world’s wealthiest nation do not own enough assets to live a poverty lifestyle for three months. The boom years of the 1990s, which produced enormous wealth and record-low unemployment, lifted only 7 percent out of asset-poverty. The Asset Poverty Line shows that the effects of the tremendous run-up in the stock market in the 1990s that created over $8 trillion in equity barely trickled down to typical families.

The Asset Poverty Line also contains information on the official income-poverty line, which illustrates that looking at poverty through the asset lens changes the scope, magnitude, and understanding of what poverty means, not just the definition. One can view income-poverty as a phenomenon affecting a relatively small percentage of Americans, who, perhaps, have educational and skill deficits, physical disabilities, or personal deficiencies. But if poverty is something that affects not just one in every eight, nine, or ten families but four in ten, then we need to think about poverty very differently because it is much more characteristic of American families.

Over half of black American families fell below the Asset Poverty Line in 1999. This represents a positive trend for black families, as it was 67 percent in 1984 and has declined steadily over 15 years. This downward trend is encouraging, although an asset poverty rate of 54 percent is shamefully high and more than twice the rate of white families. In 1984
one in four white families fell below the Asset Poverty Line; this rate remained steady in 1989, rose in 1994 to 33 percent, and then fell back to 25 percent in 1999.

Figure 1.2 below provides information on children in asset-poor families. Thirty-nine percent of America’s children are being raised in families that fall below the Asset Poverty Line. Vivian Arrora’s children—Lamar, Bria, and Brittany—are growing up in an asset-impoverished family, and instead of viewing their circumstances as tragic or extraordinary, the reality is that this family represents the genuine asset circumstances and incapacities for two of every five children in America. The Arrora family is a good illustration of how much more difficult it is to permanently leave asset poverty than it is to escape income poverty. Vivian Arrora’s income barely extends past the official government poverty line, but on a personal and statistical level hers is a success story. It will take many, many years of working full-time, getting raises, and being promoted before her children will receive any benefits that go along with assets, unless she meets her millionaire.
A further analysis of this already disturbing data discloses imposing and powerful racial and ethnic cleavages. In 1999, 26 percent of all white children grew up in asset-poor households, compared to 52 percent of black American children and 54 percent of Hispanic children. The rate for whites has held steady since 1984 at about one-quarter while the rate for Hispanic children has risen and the rate for blacks has fallen. An annual report card on the nation’s asset health would be a good start because it would provide information on family asset poverty and a regular tally on the extent to which important segments of the population lack this private cushion.¹⁰

In this chapter we got to know the Arrora, MacDonald, Ackerman, and Cummings families. As my argument takes shape in the rest of this book I will draw upon some of the other 178 families we interviewed. The detailed private information these families shared with us is the basis for our understanding of how families use assets to promote their betterment. Just as significantly, as we already have begun to learn, lack of financial assets typically acts as a critical barrier to advancement or launching social mobility. I will use the household surveys to examine questions about financial wealth in the United States, demonstrating
that private wealth is the hidden fault line in American society and that a racial wealth gap persists. The next key step in my argument explores the lives of middle-class Americans to consider in greater detail the impact of private wealth on successful white and black families. After that, I examine the main routes by which past wealth inequality becomes the foundation for modern racial inequality. To accomplish this I focus on one of the bedrocks of the American Dream—homeownership. How young families acquire homes is one of the most tangible ways that the historical legacy of race plays out in the present generation and projects well into future. To understand how young families can afford to buy homes and how this contributes greatly to the racial wealth gap, we need to unravel the legacies of inheritance. Sorting out a modern notion of inheritance brings the racial legacy into closer view. An important element of my argument details how families leverage resources to position themselves in communities they deem to be advantageous in both class and race terms. I develop this theme further by describing the extraordinary extent to which families make sacrifices and expend resources to place their children in educational environments that give them important competitive advantages. Finally, I connect what we have learned to public policy recommendations, most particularly in the areas of homeownership, equitable schooling, asset development, and minimizing the ability of wealth to perpetuate inequality.
The Cost of Being Black and the Advantage of Being White

Wealth and Inequality

What portion of the racial wealth gap results from merit-based differences like education, jobs, and earnings, and what portion springs from nonmerit-based sources, like inheritance, institutional discrimination, and discriminatory public policy? This question is crucial not because we can hope to explain all causes of the racial wealth gap but rather because it allows us to identify some significant sources of the gap. A commonsense explanation of why some people have more wealth than others is that wealth is accumulated primarily through high salaries, wise and timely investments, and prudent spending. Many contend that the racial wealth gap principally results from income inequality.¹ That is, people with similar incomes will have similar wealth, regardless of race. Do differences in income explain nearly all the racial differences in wealth? If so, then policies need to continue focusing primarily on the workplace to further narrow job and earnings inequality. If not, however, then public policy must address dynamics outside the labor market as well as those within.

The remarkable growth of wealth resulting from the sustained economic prosperity after World War II changed forever its role in American society. Until the baby boomers started coming of age, family wealth was the prerogative of a tiny minority of upper-crust American families. In the baby boom years, between 1946 and 1964, a significant number of middle-class families accumulated substantial amounts of wealth for the first time. Middle-class families now are passing along about $9 trillion to their adult children. How they use this unprecedented wealth transfer is an important part of the increasing inequality and racial inequality stories.
When we discuss a family’s net worth, we mean all assets minus all debts and specifically include home equity. Net worth, then, is like a family’s total asset balance sheet and indicates all of its financial resources. The median (or typical; half of all families have more and half have less) and mean (average) net worth of families in 1999 was $40,000 and $179,800, respectively. Net financial assets, on the other hand, are restricted to liquid assets (those immediately available), specifically excluding home equity and cars. Net financial assets indicate those resources immediately available to families, and net worth gives a better idea of those resources that might be available to the next generation. Median and mean net financial assets in 1999 stood at $15,000 and $134,700. Which is a better sense of what the “average” American family possesses: $15,000 or $134,700? In the case of the latter, adding a billionaire’s wealth raises the statistical average substantially. It does not affect the median.

The significant difference between net worth and net financial assets is the inclusion or exclusion of home equity. Because net worth indicates wealth that may be bequeathed at death to the next generation and net financial assets indicate resources available today, I will present both throughout.

The remarkable post–World War II growth in wealth saw average net worth increase nearly $60,000 per household between 1962 and 1995. Of course, this figure is misleading, because the growth in wealth did not occur evenly for all families. Net worth increased from $31,000 to $39,000 for typical families during this period. The huge difference here between the mean and median figures demonstrates again the lopsided nature of wealth accumulation. Meanwhile, net financial assets for typical families remained unchanged between 1962 and 1995, although the average figures, again, show a hefty increase from $92,000 to $135,000. Keeping the important top-heavy caveat in mind, it does mean that larger shares of wealth created by the tremendous postwar prosperity in America spread out into more families than at any time in our past. The difference between net worth and net financial assets also indicates that for average Americans housing wealth continues to be the largest reservoir of assets. In fact, for families in the middle three-fifths of America’s net worth distribution, ranging from $1,650 to $153,000, equity in their principal residence represents 60 percent of their wealth.
While overall wealth has been increasing at this staggering rate, wealth inequality has been increasing since 1980. By 1998 it had reached its worse level since 1929. The richest 1 percent of families controls 38 percent of total household wealth, and the top 20 percent controls 84 percent. Financial wealth is even more lopsided: The richest 1 percent owns 47 percent of the value of stocks, bonds, real estate, businesses, and other financial instruments, and one-fifth of America’s families controls 93 percent. In contrast, the top 20 percent receives about 42 percent of all income.

The financial wealth of the bottom two-fifths of the population actually falls into negative numbers; that is, family debts overshadow financial assets. Nearly three in ten households have zero or negative financial wealth. These figures illustrate the extreme concentration of wealth, and when we view American families’ economic health through this wealth lens we see that it is more fragile than acknowledged previously. Economic inequality increased markedly as the boom of the 1990s fizzled. The wealth of those in the top 10 percent of incomes surged much more than the wealth of those in any other group. The net worth of families in the top 10 percent jumped 69 percent from 1998 to 2001.

These numbers present a staggering portrait of inequality in America, but, as aggregate statistics, they cannot show us what wealth means in people’s lives. I will turn to one of the wealthiest families we interviewed to put financial assets into the concrete and human context of real families and to glimpse the organizing role that assets play in family life.

The Doucette Family Story

In 1982, Jen and Sam Doucette bought a home on a quiet residential street in the Mar Vista section of West Los Angeles—bordered by Santa Monica to the north and Culver City to the east—from a friend who had moved away and was looking for someone to take over his mortgage. They had just married, and both held well-paying jobs they liked. Like the others in their immediate neighborhood, their home was a small, one-story, stucco tract home built right after World War II, probably for workers from the nearby Hughes and Douglas defense plants. They were the first on their block to add a second story, which not only doubled
and modernized their living space but also began an upscaling of this neighborhood from working class to upper middle class. Their street is considerably west and south of what most call Mar Vista, but according to local real estate agents I spoke to, Mar Vista is becoming more a state of mind and status than a precise geographic area.

The Doucettes’ part of Mar Vista is a section of Los Angeles that is increasing in value rapidly because it is only one mile to the ocean and because of its location on the affluent west side. Many homeowners have, like the Doucettes, recently expanded vertically to bring them more in tune with upper-middle-class urban lifestyles. The activity and newness of the construction brighten the neighborhood and give it a different air from the areas that surround it. Their block clearly has the sorts of amenities and new city services—like freshly painted crosswalks and curbs, neatly trimmed trees, buried electric lines—that herald up-and-coming neighborhoods. It sends out an air of rising property values.

In terms of financial wealth, the Doucettes are the wealthiest family we interviewed. Their net worth (including their house) of $1 million places them among the richest 1 percent of Americans. Sam is a corporate executive and makes more than $200,000 a year. Jen used to work at one of the motion picture studios but has been a homemaker since Blaine, their 5-year-old, was born. They possess an assortment of mutual funds, IRAs, 401(k)s, CDs, and pension plans that total about $450,000. Sam and Jen have access to over $700,000 in net financial assets tomorrow to take advantage of an opportunity, meet a crisis, or plan for their future.

In addition to their various savings plans, they bought another house in their neighborhood two years ago and fixed it up to rent as an investment property, and they feel very confident that it will rise in value with their neighborhood. They were able to put down about half of the purchase price for this investment property in cash. Several years ago on a vacation to Lake Arrowhead, they fell in love with the area and decided to buy a second home. Jen recalls,

_Homes could be had for a very reasonable price. I don't think we ever dreamed in a million years that we would have a vacation home this early in our lives. It fell into our lives, basically. We almost immediately decided that we wanted to buy up there._
They found a three-bedroom, two-bath vacation home and bought it for $140,000, using $65,000 as a down payment. Both of their additional properties have appreciated considerably, adding another $100,000 or so in property to their wealth portfolio. At the time of our interview, their house was worth about $160,000 more than it had cost them, including the improvements.

This is a very prosperous family, and evidence of this prosperity came through throughout the interview. Like most Americans, though, Jen and Sam do not believe it is appropriate to disclose financial details. Jen was so guarded about family finances that I had to ask for details more than once. When asked to rank her family’s wealth as compared to other American families, Jen guessed about the 80th percentile, though in fact they are about the 99th percentile. At the other end of the spectrum, we talked to families with zero or even negative assets who ranked themselves at 50 on this scale. It seems that the commonly held perception that all think of themselves as middle class is accurate. The Doucettes responded to questions about wealth with discomfort, even though they had been clearly informed beforehand that I would ask them. Interestingly, we rarely got this attitude from families with few assets, who had perhaps more embarrassing and less “successful” stories to tell.

Despite their initial reticence, the Doucettes told us that they treat their wealth as a special kind of money different from income. According to Jen, wealth “is definitely long term. We act as if it’s not even there.” She is expressing her sense of economic security grounded in wealth.

Like many wealthy city residents, the Doucettes live in a community that they like but feel trapped in a school jurisdiction in which they have no confidence. Mar Vista may be a state of mind, as the local real estate agents like to say, but it unambiguously falls within the boundaries of the Los Angeles Unified School District, notorious for weak schools, drug problems, and violence. Blaine is attending a Montessori preschool. I ask Jen what will happen when he is ready for kindergarten and decisions must be made. Jen is clear and adamant: “Our neighborhood school is not an option.” Instead, they are looking into a couple of charter and magnet schools, and they plan to petition neighboring Culver City for admission since this city’s schools have a very good reputa-

The Reaction

Surprised by the information, Jen and Sam began to provide a look at household and family and is material in drama. It lies is the financial for every how to the people on the
tation. These are backup plans because Pacifica Oaks, "the private school that we applied to, is our first choice." It is one of the most expensive private schools in Los Angeles; the cost of kindergarten for Blaine would start at $12,000.

The capacity of wealth is powerful in the Doucette family. It allowed them to buy a house in a desirable location and a vacation home that gets them out of Los Angeles in the hot and smoggy summer months and into Southern California's mountains and lakes. They can use their wealth to acquire the kind of educational environment and experience they think best for Blaine. At the end of the interview, I ask Jen if she has a sense of economic security: "Very much, yes." Then I ask her to tell me a few things she is able to do because of her sense of security. "Take trips, buy additional property, make certain investments," Jen says. "We definitely have freedom to do things." The Doucettes are a delightful family and seem quite happy. We have no way of knowing how important money is to their happiness, but for this family wealth is important for homeownership, community, a vacation home, and shaping the life of their child.

The Racial Wealth Gap

Surprisingly, household surveys did not begin collecting detailed information about wealth until the mid-1980s, when a couple of surveys began including questions about family assets. This information provides the basis for analyzing the racial wealth gap. The charts below look at data from 1999. (See Figures 2.1 and 2.2.) The typical black household earns 59 cents for every dollar earned by the typical white household. This income comparison closely matches other national data and is the most widely used indicator of current racial and ethnic material inequality. However, changing the lens of analysis to wealth dramatically shifts the perspective. The net worth of typical white families is $81,000 compared to $8,000 for black families. This baseline racial wealth gap, then, shows that black families possess only 10 cents for every dollar of wealth held by white families. The issue is no longer how to think about closing the gap from 59 cents on the dollar to a figure approaching parity but how to think about going from 10 cents on the dollar to parity. In dollars, the baseline racial wealth gap is
Figure 2.1 Family Income and Family Wealth

Source: PSID, 1999

Figure 2.2 Family Income and Family Wealth
Minority Cents-to-Dollar Values

Source: PSID, 1999
robust: The typical white family’s wealth is $73,450 more than the typical black family’s. Even though both white and black families increased their net worth between 1988 and 1999, the black-white gap actually grew by $16,000 (in 1999 dollars).

The figures for net financial assets do not improve the picture. The typical black family possesses $3,000 in net financial assets compared to $33,500 for the typical white family. These figures represent wealth accumulation for both whites and blacks between 1988 and 1999, indicating that the typical white and black families had progressed financially. These figures also show a whopping $20,000 increase in the net financial asset gap. While families were doing better, inequality increased.

The Connection Between Income and Wealth

Why does this huge racial wealth gap persist, and why is it getting worse? One alternative explanation that minimizes the significance of race argues that wealth is a product of income and savings; that is, as incomes rise, people save and invest more, which leads to greater wealth accumulation. This classical economic view attributes the racial wealth gap primarily to income differences between whites and blacks.7 The explanation points to narrowing the income gap as the principal remedy for the racial wealth gap. In order to test this perspective, it is critically important to address whether the wealth of blacks is quite similar to that of whites with comparable incomes. In fact, while the evidence supports the importance of high salaries to wealth accumulation, the evidence also suggests that income is only part of a larger picture.

Table 2.1 shows that white households in every income quintile have significantly higher median wealth than similar-earning black households. In the lowest quintile, net worth for typical white households is $17,066, while black households in the same quintile possess only $2,400. Among highest-earning households, white median net worth is $133,607, while net worth for black households in the highest income group registers $43,806. The median net financial assets data is just as revealing: At the middle quintile, for example, typical net financial assets for white households are $6,800, which is markedly higher than for black households, $800.8
Table 2.1  Wealth by Income and Race

<table>
<thead>
<tr>
<th></th>
<th>White</th>
<th></th>
<th>Black</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest fifth median</td>
<td>$133,607</td>
<td>$40,465</td>
<td>$43,806</td>
<td>$7,448</td>
</tr>
<tr>
<td>Second highest fifth median</td>
<td>$65,998</td>
<td>$13,362</td>
<td>$29,851</td>
<td>$2,699</td>
</tr>
<tr>
<td>Middle fifth median</td>
<td>$50,350</td>
<td>$6,800</td>
<td>$14,902</td>
<td>$800</td>
</tr>
<tr>
<td>Second lowest fifth median</td>
<td>$39,908</td>
<td>$3,599</td>
<td>$6,879</td>
<td>$249</td>
</tr>
<tr>
<td>Lowest fifth median</td>
<td>$17,066</td>
<td>$7,400</td>
<td>$2,400</td>
<td>$100</td>
</tr>
</tbody>
</table>

Source: PSID, 1999

It is important to observe that controlling for income in this manner does lessen significantly the white-to-black wealth ratios. The baseline median white-to-black net worth gap is a dime to a dollar overall but narrows when comparing white and black households in similar income quintiles. The gap, as expressed in black-to-white dollar ratios, stays about the same for people at the lower end but narrows to 30 cents on the dollar, 45 cents, and 33 cents, respectively, for people in the $25,000–$39,000, $39,001–$60,000, and highest earning ranges. In brief, as shown by this comparative procedure, controlling for income indeed narrows the gap, but a significantly large gap persists. This factual record does not support hypothetical propositions that whites and blacks at similar income levels possess similar wealth.9

No matter how much or how little you make, then, wealth is dramatically higher for white households. The evidence shows that higher incomes lead to high wealth accumulation, but the same evidence does not support the contention that the racial wealth gap derives principally from white-black income differences. This alternative explanation of the racial wealth gap lacks evidence. Lest my rejection of the income explanation sound too dismissive, let me be clear: The racial wealth gap does decline as incomes rise. At the same time, even when incomes are equal and high, a cavernous gap remains.

But aren't things improving for younger people? We might expect to find a more sizable racial wealth gap among older people than among younger people because of progress in other areas of racial inequality. As younger generations begin and go through life with more equal opportunities than previous generations, the wealth gap should narrow. And yet there is a consistent pattern. Further, the racial wealth gap is
not simply a matter of starting at different places and then maintaining this constant gap; the gap widens as people advance through the life course. For whites and blacks who were 20–29 years old in 1984, the gap increased $23,926 by 1994. As white and black families progress through the life course, the different opportunities afforded by increasingly disparate financial resources continue to compound racial inequality and make it worse.¹⁰

Earlier in this chapter we detailed the extraordinary magnitudes of wealth inequality between whites and blacks that remain even when they are matched on key characteristics such as income. The research findings support my contention that a single source or even a few sources cannot account for the racial wealth gap. Rather, its roots run more deeply in contemporary American life.¹¹ A more informed and comprehensive analysis therefore needs to (1) identify which factors are most important in creating the wealth gulf; (2) explore how much of the racial wealth gap can be explained by a combination of key factors; and (3) assess the contribution of merit and nonmerit factors in creating the racial wealth gulf.

We now can use a statistical method called multiple regression to examine the relationship between wealth and the variables we think predict wealth, such as income, age, marital status, family size, region, job, and education. It allows us to see how changes in the various variables affect wealth. For example, multiple regression can give us a good understanding of how much wealth increases for each additional year of education completed net of changes in the other factors. The first step in regression analysis is to identify a set of variables that are expected to have an impact on wealth. Income? Education? Jobs? Age? Family? What combination of factors? I want to emphasize that this sort of analysis best identifies key factors and the contributions they make for the variance in wealth. Later, I will use our family interviews to assess the importance of head-start assets in launching a family’s well-being.

The results in Table 2.2 show that in this survey income, inheritance, and having one full-time (highly paid) family worker are the most significant predictors of differences in net worth, followed by home ownership. When one has a college degree, the number of children in one’s family, marital status, female-headed family, and full-time employment are less important. Income is the most important factor in net
financial assets variation, followed by inheritance and one full-time family worker. Table 2.2 also allows us to observe the contribution each variable makes to wealth accumulation.

Income is the most important variable determining net worth. Each additional dollar of annual income generates $3.26 in net worth; thus the net worth difference between a family with a $30,000 income and a family families with $60,000 in earnings is nearly $100,000. This wealth disparity is built upon years of income difference. Owning a home returns about $56,000, which is another indication of how important home equity is for building wealth. For net financial assets, each additional income dollar generates $2.95, and middle-class occupation nets $31,100 in comparison to working-class jobs.\textsuperscript{12}

The results just presented include all families, and thus they do not tell us about racial differences. Now we can investigate whether, for example, a college education rewards blacks as well as it does whites. Table 2.3 opposite presents separate analyses for blacks and whites.

<table>
<thead>
<tr>
<th>Table 2.2 What Accounts for Wealth Differences?</th>
<th>Net Worth</th>
<th>Net Financial Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>32,509.00</td>
<td>24,503.00</td>
</tr>
<tr>
<td>Age</td>
<td>1,011.00</td>
<td>586.00</td>
</tr>
<tr>
<td>Age Squared</td>
<td>38.04</td>
<td>33.80</td>
</tr>
<tr>
<td>Live In South</td>
<td>-3,121.00</td>
<td>-4,782.00</td>
</tr>
<tr>
<td>Education in Years</td>
<td>5,695.00</td>
<td>3,693.00</td>
</tr>
<tr>
<td>Bachelor's Degree</td>
<td>54,398.00</td>
<td>41,933.00</td>
</tr>
<tr>
<td>Middle-Class Occupation</td>
<td>26,108.00</td>
<td>31,748.00</td>
</tr>
<tr>
<td>Number of Children</td>
<td>-15,161.00</td>
<td>-10,840.00</td>
</tr>
<tr>
<td>Widowed</td>
<td>-73,541.00</td>
<td>-73,333.00 +</td>
</tr>
<tr>
<td>Married</td>
<td>12,353.00</td>
<td>45.86</td>
</tr>
<tr>
<td>Female-Headed w/ Children</td>
<td>62,509.00</td>
<td>43,993.00</td>
</tr>
<tr>
<td>Experienced Unemployment</td>
<td>7,902.00</td>
<td>5,575.00</td>
</tr>
<tr>
<td>Employed Full-Time</td>
<td>-68,163.00</td>
<td>-55,476.00 *</td>
</tr>
<tr>
<td>Retired</td>
<td>39,746.00</td>
<td>28,457.00</td>
</tr>
<tr>
<td>Own Home</td>
<td>56,238.00</td>
<td>15,899.00</td>
</tr>
<tr>
<td>Income $</td>
<td>3.26 ***</td>
<td>2.95 ***</td>
</tr>
<tr>
<td>Inheritance $</td>
<td>0.13 **</td>
<td>0.10 **</td>
</tr>
</tbody>
</table>

\textit{CONSTANT} \quad -229,954.00 * \quad -171,773.00 +

\textit{N} \quad 6367 \quad 6583

\textit{R Squared} \quad 0.174 \quad 0.139

\textit{Adjusted R Squared} \quad 0.171 \quad 0.137

\textit{Total Model Significance} \quad 0.00 \quad 0.00

\textit{+} \leq .10; \textit{*} \leq .05; \textit{**} \leq .01; \textit{***} \leq .001

Source: PSID, 1999
Income translates, for example, into more wealth for whites than for blacks. Everything else being equal, blacks accrue only $1.98 in wealth for each additional dollar earned, in comparison to $3.25 for whites, so that, net of all other factors, the average black family earning $60,000 possesses $76,000 less wealth than the average white family with the same earnings. The most dramatic difference is the wealth effect of homeownership, which is worth about $60,000 more for whites than blacks. This evidence bolsters my core argument that the way homes are bought and sold, where they are located, and how the market values them provides a contemporary foundation for racial inequality.

These findings using 1999 data vividly show the continuing importance of race in the wealth accumulation process. We noted that demographic, achievement, and inheritance factors actually explain a small portion of the racial wealth gap. Examining wealth accumulation in 1999 in this way provides an excellent snapshot for the United States.

Table 2.3 What Accounts for Wealth Differences Among Blacks and Whites?

<table>
<thead>
<tr>
<th></th>
<th>Net Worth</th>
<th></th>
<th>Net Financial Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>WHITE</td>
<td>BLACK</td>
<td>WHITE</td>
<td>BLACK</td>
</tr>
<tr>
<td>Age</td>
<td>3040</td>
<td>-157</td>
<td>2041</td>
<td>-101,576</td>
</tr>
<tr>
<td>Age Squared</td>
<td>26</td>
<td>8</td>
<td>28</td>
<td>2,479</td>
</tr>
<tr>
<td>Live in South</td>
<td>-2908</td>
<td>-1741</td>
<td>-9376</td>
<td>-2162,824</td>
</tr>
<tr>
<td>Education in Years</td>
<td>14170</td>
<td>1530</td>
<td>9484</td>
<td>235,308</td>
</tr>
<tr>
<td>Bachelor's Degree</td>
<td>35654</td>
<td>5974</td>
<td>28176</td>
<td>155,164,457</td>
</tr>
<tr>
<td>Middle-Class Occupation</td>
<td>36356</td>
<td>24682</td>
<td>42808</td>
<td>27,125,477 +</td>
</tr>
<tr>
<td>Number of Children</td>
<td>-30210 +</td>
<td>2564</td>
<td>-25713 +</td>
<td>6122,664</td>
</tr>
<tr>
<td>Widowed</td>
<td>-78336</td>
<td>-4211</td>
<td>-85342</td>
<td>-4756,381</td>
</tr>
<tr>
<td>Married</td>
<td>22051</td>
<td>-12846</td>
<td>4329</td>
<td>-17886,824</td>
</tr>
<tr>
<td>Female-Headed w/ Children</td>
<td>61031</td>
<td>-1648</td>
<td>41959</td>
<td>-9432,589</td>
</tr>
<tr>
<td>Experienced Unemployment</td>
<td>-17216</td>
<td>16699</td>
<td>-14752</td>
<td>1188,436</td>
</tr>
<tr>
<td>Employed Full-Time</td>
<td>-81635 +</td>
<td>-22750</td>
<td>-67562</td>
<td>-19695,876</td>
</tr>
<tr>
<td>Retired</td>
<td>55255</td>
<td>6120</td>
<td>37753</td>
<td>3476,659</td>
</tr>
<tr>
<td>Own Home</td>
<td>86658 *</td>
<td>27324 *</td>
<td>39427</td>
<td>1467,46</td>
</tr>
<tr>
<td>Income $</td>
<td>3.250 ***</td>
<td>1.974 ***</td>
<td>2.951 ***</td>
<td>1.938 ***</td>
</tr>
<tr>
<td>Inheritance $</td>
<td>0.118 *</td>
<td>0.141</td>
<td>0.093 *</td>
<td>0.05208</td>
</tr>
<tr>
<td>CONSTANT</td>
<td>-382,178,00 *</td>
<td>-50,836,00</td>
<td>-277,028,50 +</td>
<td>23670,359</td>
</tr>
<tr>
<td>N</td>
<td>3981</td>
<td>1859</td>
<td>4074</td>
<td>1963</td>
</tr>
<tr>
<td>R Squared</td>
<td>0.169</td>
<td>0.064</td>
<td>0.137</td>
<td>0.049</td>
</tr>
<tr>
<td>Adjusted R Squared</td>
<td>0.166</td>
<td>0.056</td>
<td>0.134</td>
<td>0.041</td>
</tr>
<tr>
<td>Total Model Significance</td>
<td>***</td>
<td>***</td>
<td>***</td>
<td>***</td>
</tr>
</tbody>
</table>

* p < .10; * p < .05; ** p < .01; *** p < .001
Source: PSID, 1999
at one point in time and thus provides valuable insight into racial inequality. We can track families over time and examine their wealth accumulation and ask questions beyond the capabilities of cross-sectional data.\textsuperscript{13} What distinguishes wealth-gaining families from families whose wealth does not change or from families whose wealth declines?\textsuperscript{14} The first table in Appendix I (Table A.1) presents the results of factors that distinguish wealth-accumulating families from others between 1989 and 1999. Income, inheritance, and retirement during this period distinguish wealth-gaining families from those who did not gain much wealth. All the factors explain about 15 percent of the change in wealth between 1989 and 1999.

Change in family income is the most important factor in wealth changes. Each additional dollar in family income generates over $3.22 in net worth. Surprisingly, family educational status changing from no college graduates to college degrees is not important in distinguishing wealth-gainers from others. Becoming a homeowner during this period is not significant, in my view; homes do not rise in value very much in short time spans. However, homeownership will magnify differences over longer time periods. Finally, every dollar inherited between 1989 and 1999 created 60 cents in net worth.

Table A.2 shows changes in wealth from 1989 to 1999 separately for white and black households. One can note for each racial group how different factors are significant in distinguishing wealth-gainers from others. Change in family income, again, is the most important factor, but income once more translates into more wealth for whites than for blacks. Blacks accrue only $2.00 in net worth wealth for each additional dollar earned, in comparison to $3.22 for whites. Receiving an inheritance in this period is an important characteristic distinguishing white wealth-gainers, adding 59 cents in net worth for every dollar inherited.\textsuperscript{15} Significantly, inheritance does not distinguish wealth-building among black families, perhaps because inheritance is so much more infrequent in black families and, when they do inherit, the amounts are small. I will pursue this key finding about the relative importance of inheritance in white and black families further in the next chapter.

To make our finding even more graphic we can look at what would happen if whites received the same returns as blacks on all factors. We know already, for instance, that whites receive $3.25 in additional
Wealth for each new dollar of income and that for blacks one additional income dollar generates only $1.98 in wealth. The idea here is to demonstrate the wealth effect of using blacks’ wealth return for income instead of whites’, and so on for every factor under analysis. We already know that a typical white family’s mean net worth is $247,730, but what happens when we swap white functions for black ones? This method yields an easy way of projecting the cost of being African American. Swapping functions in this way lowers a family’s net worth to $111,556. Thus the cost of being black amounts to $136,174. In net financial assets, the cost of being African American amounts to $94,426. These numbers present our best attempt to put a dollar figure on penalties African Americans pay.

In my view, it is equally important to explore the relationship between the hidden cost of being African American and the advantage of being white. This involves some tough reckoning. Do advantages in some areas translate into disadvantages for others? Is whites’ well-being related to blacks’ hardship? The white advantage in housing markets, as we have suggested already and will explore in detail later, seems to result in fewer homeownership opportunities and less built up in home equity for blacks. In later chapters, I will make a strong argument that advantages in education opportunity also come at the expense of disadvantaging others. In other areas, whites’ advantage may not translate directly into blacks’ disadvantage; instead, it may limit opportunities for minorities.

The idea of calculating white advantage is a good deal more threatening. The reason for this incongruity is that our national discourse typically frames racial discussions around why black Americans are not as successful as others are. Depending upon viewpoints, framing our national discussion on racial inequality this way puts the onus for black disadvantage on overt racism or on blacks themselves for not doing better. Both perspectives tend to see African Americans as victims. In my view, part of the power of dominant groups (in this case, whites) is their seeming invisibility and the fact that their status is often taken for granted, as if they are not active actors, agents, or benefactors in an unequal relationship. I believe we must begin to discuss white advantage and its direct impact on blacks. In the context of the next two chapters, which examine inheritance and middle-class achievements,
I develop more fully the relationship between white advantage and black disadvantage.

For now, however, the focus remains on placing an objective dollar figure on white advantage. Class enters the picture once again because the figures tell us about the average white family. In reality, many do not benefit at all while the dollar advantage to others far exceeds the average. The figures for the cost of being black are also—obversely—the dollar figures for white advantage: The hidden net worth advantage of being white also amounts to $136,173; similarly, the net financial assets advantage for being white is $94,426.

The Doucette family, described earlier in this chapter, gave us a glimpse at what wealth means to a very prosperous family. But what of families more firmly situated in the middle class and more like an “average” American family? In fact, the more typical case, as people’s stories showed us repeatedly, is that addition or subtraction of a relatively small amount of assets can lead to radically changed lives. Take, for example, the Andrews family, a professional, middle-class family living in St. Louis.

**The Andrews Family**

Judith Andrews is the kind of person who anchors a community—energetic, bright, and involved. She was 7 years old when her family moved from the public housing projects into their own home and became the first African American family on the block. Her father was a musician, and her mother was a seamstress. She was educated in the Catholic schools of Cleveland before becoming the first in her family to go to college. Using a combination of scholarships, working, and school loans, she earned her bachelor’s degree at Cleveland State and then a master’s degree in public affairs from Occidental College. After college, she moved to St. Louis for additional training in public affairs and started working as a planner at an agency focusing on housing for low- and moderate-income families.

Judith Andrews loves to tell the story of how she found and bought her home in 1982. Through her work in urban planning, she found a condemned house in the “dicey” but potentially up-and-coming Vandeventer neighborhood of north St. Louis. Just out of college, single, and
with little in the way of savings, she took a calculated risk, bought a dilapidated house for $1,500, and completely rehabbed it from pipes in the ground to roof tiles. Fixing the roof was more expensive than the purchase price. Since first buying the house, she has put $30,000 into making the once-condemned property a comfortable home. In 1990, a few years after she bought her home, the average selling price for a single-family residence in this area was $32,000. In 2000 Vandeventer is 97 percent African American, 29 percent of the housing units are vacant, abandoned, or boarded up, and the poverty rate is high. When I ask why she chose her neighborhood, she says, "I kind of liked the urban pioneer spirit that St. Louis seemed to exhibit at that time." Judith particularly enjoys the liveliness of the nearby Central West End neighborhood, with its restaurants, shops, activity, and integrated feel.

In 1994 Judith married Steve, who works as a paralegal. The Andrews's block fits sociologist Mary Patillo-McCoy's description of black middle-class neighborhoods in her book Black Picket Fences. More poverty, worse schools, higher crime, and fewer services than middle-class white neighborhoods characterize them. This results from the geography of residential segregation that typically situates black middle-class neighborhoods between poor black communities and whites. The Andrews's share space and public services with poor blacks, and thus the problems associated with poor black urban neighborhoods, while they serve as a buffer between the largely white, upscale West End they identify with and those same problems.

The street Judith lives on is a block north of a major thoroughfare that many consider the northern perimeter of the Central West End. As with the Doucettes defining themselves as a part of Mar Vista, it is important for Judith to identify as a Central West Ender, which supplies a middle-class persona that Vandeventer cannot. Her block is like many others in sections of St. Louis that are all black. Judith's home is a three-story brick house in good shape set back about 15 feet from the street with trimmed grass and plants in front. Trees provide much-needed shade on this block and some separation between houses that otherwise are close together. The houses on either side look like hers and add to the spruced-up, middle-class feel of her block, but across the street, and indeed interspersed every three or four houses, buildings are boarded up and broken windows and tall weeds designate obviously
vacant homes. Turner Park, located near Judith's house, is a perfect example of the mixed economic condition of the Vandeventer neighborhood: At one corner there is a playground that could be the cornerstone of the surrounding blocks; at the other corner there is an unmaintained baseball diamond whose teams have long since moved from the neighborhood.

Judith enjoys seeing herself as a pioneer, but she also talks about needing to play frontier sheriff when drug activity increases and she must intensify her neighborhood commitments. She discusses her constant quest to "turn houses over to families who would make an investment in the neighborhood." She fears that many of the homes could be "wiped out overnight."

*Just wiped out. Like one year, the man across the street died. The man next door to him died. The man next door to me died. And two doors down across the street, the lady died. And they were all like in their eighties... And those houses were all vacant. I mean, that's a scary thought. One day, they're occupied and fully functional; and then you wake up and they're vacant.*

Judith calls this the "scourge" of her community, which she and others regularly combat with constant vigilance and by marketing the area to prospective homeowners and small businesses.

Judith and Steven are successful in their professional careers, earning more than $80,000 between them. This urban-pioneer story is not just a tale about boldness and risk rewarded. It also is an asset success story. They live and find part of their urban identity in the "lively" Central West End. They probably could not afford to live within the traditional borders of the Central West End, where homes are far more expensive, but they are helping to stretch its boundary. The wealth accumulated in their home also means they do not have to shoulder the burden of poor urban public schools. Judith's 17-year-old son goes to an all-black parochial high school with excellent educational standards. Their young daughter will go to day care full-time until she reaches school age, when she too will go to private school, if she does not get into the city magnet school for gifted children. Their healthy incomes cannot pay the private school and day care bills, which total $18,000 annually. Judith and Steven have taken out a home equity loan to provide for their children's needs and other family expenses.
The house is worth about $70,000 in the current Vandeventer real estate market. We will analyze this in more detail in later chapters, but the real estate mantra of *location, location, location* clearly is evident here. Everything about this house—its architecture, its size, its condition, the way it feels—suggests that if we moved it to a more affluent community its value would rise significantly. Its Vandeventer location puts a racialized ceiling on its value because middle-class white families will not choose to move to this neighborhood. With the pool of potential buyers limited to blacks who can afford the Andrews house, the law of supply and demand values homes in black communities at considerably lower prices. Even though their home provides the Andrews about $40,000 in equity, if it were in a white middle-class community, the value of the house would be higher and their home equity would be much larger. This is one of the ways being black disadvantages even successful, hard-working, playing-by-the-rules, middle-class blacks. Several later chapters will pick up this theme and break down these dynamics in detail.