

Making a Fortune for Others: Causes and Consequences of the Black Wealth Gap

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Everyone should be able to weather a financial shock – a major illness, a layoff – without losing their housing or falling deep into debt. Everyone should be able to afford educational opportunities for themselves or their children and be able to retire with dignity and security. And every entrepreneur with a dream should be able to access the resources they need to start a new business and invest in their local economy. But a systemic racial wealth gap puts financial security, economic opportunity and community uplift out of reach for millions of Black people in the United States.

As of 2019, Black families had a median net worth of just \$24,100, compared to white families' median net worth of \$188,200. These gaps grow even larger when intersecting factors like gender, age, and class are examined. Black families headed by an adult under 35 hold just \$600 in median wealth, more than 42 times less than a comparable young white family.¹ Among single millennials (born between 1980 and 1997), the median wealth of Black women is less than 70 percent that of Black men and less than 18 percent that of white men.² Racial gaps are also deeply intertwined with class gaps. The wealthiest 10 percent of households – nearly 90 percent white – hold more than three-quarters of all wealth in the United States, and have a median net worth of \$1,925,000.³ Over the past seventy years, wealth inequality has grown substantially, and little progress has been made in closing the Black wealth gap.⁴

Causes of the Black Wealth Gap

For centuries, law and policy in the United States prevented Black people and families from accumulating wealth. Even more insidious was the extraction of labor and property from Black people, as well as Native Americans and other people of color,⁵ that founded fortunes for some of the wealthiest people in the United States, nearly all white, and laid the groundwork for the growth of a predominantly white middle class in the 20th century. The roots of the Black wealth gap originate in the enslavement of African people. The U.S. economy developed due to Black people's physical, social, and intellectual labor – in tobacco and cotton production, in domestic work, in mining, in

inventions that created new industries⁶ – yet the wealth from these endeavors went to enslavers and a growing class of industrialists whose businesses depended on the slave economy.⁷

In the post-Civil War United States, Black families were often excluded from accessing public programs that helped build the middle class, such as assistance for higher education and financial aid, affordable mortgages to build home equity, low-cost consumer banking and capital to start businesses.⁸ Black communities faced not only discriminatory laws and policies, but organized violence such as the Tulsa Massacre and Ku Klux Klan terror campaigns, which destroyed Black families' wealth as well as Black people's lives.⁹

While steps toward legal justice and more equitable policies have been made, too often progress enabling Black families to build assets has been short-lived. For example, the Federal Housing Administration refused to insure mortgages in and near Black communities until 1968, while creating a generation of homeowners in white communities who were able to build financial stability and wealth through rising property values.¹⁰ Civil rights advances, including fair lending laws, helped more Black families gain a foothold as homeowners in the mid-to-late 20th century. But inequities such as predatory lending practices meant that during the 2008 housing crisis Black homeowners were more likely to experience foreclosure and lost a greater share of their assets. The median home value for Black homeowners dropped by 35 percent from 2007 to 2013, compared to just 20 percent among white homeowners.¹¹

The Pandemic May Have Worsened the Black Wealth Gap

These structural inequities persisted through the pandemic. For example, Black-owned small businesses had to wait longer and were less likely to get Paycheck Protection Program loans than those with white owners.¹² Black adults were less likely than white adults to report receiving \$1,200 economic impact payments provided under the Coronavirus Aid, Relief, and Economic Security Act,¹³ despite the fact that Black communities faced higher job losses and rates of infection and death from COVID-19.

As of July 2020, more than half of Black adults (52 percent) reported they would have difficulty covering an unexpected \$400 expense, compared to about three in 10 white adults (29 percent).¹⁴ And while Black families were less likely to have any retirement savings before the pandemic, they have been two to three times more likely than white families to withdraw savings during the pandemic – meaning more white families have been in a position to gain from a rising stock market.¹⁵ Wealth inequities for Black families are even starker in comparison to the top of the wealth distribution: about 700 billionaires in the U.S. gained an estimated \$1.6 trillion in wealth last year¹⁶ – many

through businesses that remained in operation only thanks to the high-risk labor of essential frontline workers who are disproportionately Black.¹⁷

Policy Solutions Should Target the Communities Affected the Most

The Black wealth gap is a systemic, intersectional problem that must be addressed through a holistic set of policies that work across the many facets of economic life, from employment and education to housing and tax policy. Furthermore, narrowing overall wealth inequality is necessary but not sufficient to close the racial wealth gap. Policies must also be designed with race equity in mind to target the communities that have historically been most affected by wealth inequities.

Policymakers can begin to address the Black wealth gap by taking the following steps:

- **Close race and gender income gaps and raise incomes** by raising the minimum wage, eliminating discriminatory subminimum wages and otherwise improving wages in industries that disproportionately employ Black women and men, including public sector and care economy jobs; strengthening the right to collectively bargain; ending pay discrimination; and enacting policies to support parents and family caregivers including paid family and medical leave.
- **Guarantee affordable, quality health care for all** and eliminate medical debt and the threat of medical bankruptcy.
- **Forgive educational debt and ensure no student must take on new debt** by investing in public institutions of higher education – including technical and community colleges as well as four-year colleges and universities – and Historically Black Colleges and Universities.
- **Guarantee equitable access to safe, affordable housing and to homeownership**, particularly in predominantly Black neighborhoods which continue to face the dual threats of disinvestment and gentrification.
- **End discriminatory treatment and predatory lending practices** across all areas of finance, including for housing, education and small businesses, and ensure Black entrepreneurs, home buyers and others seeking credit have fair access.
- **Reform the tax code so that the wealthiest corporations and households pay their fair share** toward a more equitable physical, social and care infrastructure; for example, by increasing taxes on capital gains and inheritances.
- **Learn from innovative approaches and proposals to close the wealth gap and address the multigenerational harms of slavery and white supremacy**, including institutions such as universities engaging in reparations and wealth-building proposals such as baby bonds.

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- ¹ Bhutta, N., Chang, A. C., Dettling, L. J., & Hsu, J. W. (2020, September 28). *Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances (Table 1)*. Board of Governors of the Federal Reserve System Publication. Retrieved 15 June 2021, from <https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm>. The median wealth for households headed by a white adult under 35 is \$25,400.
- ² Bhattacharya, J., Price, A., & Addo, F. R. (2019). *Clipped Wings: Closing the Wealth Gap for Millennial Women*. Asset Funders Network and Closing the Women's Wealth Gap Publication. Retrieved 15 June 2021, from <https://assetfunders.org/resource/brief-clipped-wings-closing-the-wealth-gap-for-millennial-women/>
- ³ Board of Governors of the Federal Reserve System. (2019, September 28.) *Survey of Consumer Finances, 1989 – 2019 (Assets by percentile of income)*. Retrieved 15 June 2021, from <https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Assets;demographic:inccat;population:1,2,3,4,5,6;units:median;> Bruenig, M. (2019). *Wealth Inequality of Class and Race in 5 Graphs (Racial Composition of Each Wealth Decile)*. Retrieved 15 June 2021, from <https://www.peoplespolicyproject.org/2019/03/05/wealth-inequality-across-class-and-race-in-5-graphs/>
- ⁴ Darity, W., Hamilton, D. Paul, M. Aja, A. et al. (2018, April). *What We Get Wrong About Closing the Racial Wealth Gap*. Samuel DuBois Cook Center on Social Equity and Insight Center for Community Economic Development. Retrieved 15 June 2021, from <https://socialequity.duke.edu/wp-content/uploads/2019/10/what-we-get-wrong.pdf>; Kuhn, M., Schularick, M., & Steins, U. I. (2018, June 14). *Income and Wealth Inequality in America, 1949-2016*. Federal Reserve Board of Minneapolis Publication. Retrieved 15 June 2021, from <https://www.minneapolisfed.org/research/institute-working-papers/income-and-wealth-inequality-in-america-1949-2016>
- ⁵ The Black wealth gap is the focus of this fact sheet, but related histories of genocide, theft, and discrimination, often explicitly supported by law and policy, also led to wealth gaps for Native Americans, Latinx people, Asian Americans and Pacific Islanders.
- ⁶ Johnson, S. (2019). *The Colorblind Patent System and Black Inventors*. American Bar Association Publication. Retrieved 15 June 2021, from https://www.americanbar.org/groups/intellectual_property_law/publications/landslide/2018-19/march-april/colorblind-patent-system-black-inventors/; Blackmon, D. A. (2009). *Slavery By Another Name: The Re-enslavement of Black Americans from the Civil War to World War II*. New York: Anchor Books.
- ⁷ See for example Beckert, S., & Rockman, S., eds. (2016). *Slavery's Capitalism: A New History of American Economic Development*. Philadelphia: University of Philadelphia Press.
- ⁸ Asante-Muhammed, D., et al. (2017, September). *The Road to Zero Wealth: How the Racial Wealth Divide is Hollowing Out America's Middle Class*. Prosperity Now and Institute for Policy Studies Publication. Retrieved 5 June 2021, from https://prosperitynow.org/sites/default/files/PDFs/road_to_zero_wealth.pdf
- ⁹ See for example Lewan, T., & Barclay, D. (2001). "AP Documents Land Taken From Blacks Through Trickery, Violence and Murder." *Associated Press*. Retrieved 15 June 2021, from <https://www.latimes.com/archives/la-xpm-2001-dec-02-mn-10514-story.html>
- ¹⁰ Rothstein, R. (2017). *The Color of Law: A Forgotten History of How Our Government Segregated America*. New York: Liveright Publishing
- ¹¹ Burd-Sharps, S. & Rasch, R. (2015, June). *Impact of the Housing Crisis on the Racial Wealth Gap Across Generations*. Social Science Research Council Publication. Retrieved 15 June 2021, from https://www.aclu.org/sites/default/files/field_document/discrimlend_final.pdf; Board of Governors of the Federal Reserve System. (2019, September). *Survey of Consumer Finances, 1989-2019 (Primary residence by race or ethnicity)*. Retrieved 15 June 2021, from https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Primary_Residence;demographic:racecl4;population:1,2;units:median;range:1989,2019
- ¹² Rosenberg, J. M. & Myers, J. (2020, December 31). "Minority-owned companies waited months for loans, data shows." *Associated Press*. Retrieved 15 June 2021, from <https://apnews.com/article/technology-small-business-new-york-coronavirus-pandemic-7613e946275f085367b5fc8c9a496aea>; Plerhoples, A. (2021, February 25). *Correcting Past Mistakes: PPP Loans and Black-Owned Small Businesses*. American Constitution Society Publication. Retrieved 15 June 2021, from <https://www.acslaw.org/expertforum/correcting-past-mistakes-ppp-loans-and-black-owned-small-businesses/>
- ¹³ Holtzblatt, J. & Karpman, M. (2020, July). *Who Did Not Get the Economic Impact Payments by Mid-to-Late May, and Why?* Tax Policy Center Publication. Retrieved 15 June 2021, from <https://www.taxpolicycenter.org/publications/who-did-not-get-economic-impact-payments-mid-late-may-and-why/full>
- ¹⁴ Board of Governors of the Federal Reserve System. (2020, September). *Update on the Economic Well-Being of U.S. Households: July 2020 Results (Table 4. Would cover a \$400 emergency expense completely using cash or its equivalent (by year))*. Retrieved 15 June 2021, from U.S. Federal Reserve Board website: <https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-update-202009.pdf>
- ¹⁵ Moss, E., McIntosh, K., Edelberg, W., & Broady, K. (2020, December 8). *The Black-white wealth gap left Black households more vulnerable*. Brookings Institution. Retrieved 15 June 2021, from <https://www.brookings.edu/blog/up-front/2020/12/08/the-black-white-wealth-gap-left-black-households-more-vulnerable/>

¹⁶ Collins, C. (2021, April 15). *Updates: Billionaire Wealth, U.S. Job Losses and Pandemic Profiteers*. Inequality. Retrieved 15 June 2021, from <https://inequality.org/great-divide/updates-billionaire-pandemic/>

¹⁷ For example, Black workers make up about 12.6 percent of the labor force, but 31.0 percent percent of Amazon's low-level employees, and just 3.8 percent of its senior leadership. See Amazon, *Our Workforce Data*, <https://www.aboutamazon.com/news/workplace/our-workforce-data>; U.S. Bureau of Labor Statistics. (2020). *Current Population Survey, Household Data, Annual Averages (3. Employment Status of the civilian noninstitutional population by age, sex, and race)*. <https://www.bls.gov/cps/cpsaat03.htm>

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