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Thomas Shapiro,  
Black Wealth / White Wealth  
**Race, Wealth, and Equality** 1

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### **Introduction**

Over a hundred years after the end of slavery, more than thirty years after the passage of major civil rights legislation, and following a concerted but prematurely curtailed War on Poverty, we harvest today a mixed legacy of racial progress. We celebrate the advancement of many blacks to middle-class status. In sharp contrast to previous history, school desegregation has enhanced educational access for blacks since the late fifties. Educational attainment, particularly the earning of the baccalaureate, has enabled substantial numbers of people in the black community to take advantage of white-collar occupations in the private sector and government employment. An official end to "de jure" housing segregation has even opened the door to neighborhoods and suburban residences previously off-limits to black residents. Nonetheless, many blacks have fallen by the wayside in their march toward economic equality. A growing number have not been able to take advantage of the opportunities now open to some. They suffer from educational deficiencies that make finding a foothold in an emerging technological economy near to impossible. Unable to move from deteriorated inner-city

and older suburban communities, they entrust their children to school systems that are rarely able to provide them with the educational foundation they need to take the first steps up a racially skewed economic ladder. Trapped in communities of despair, they face increasing economic and social isolation from both their middle-class counterparts and white Americans.

The stratified nature of racial inequality highlights the importance of social class background as a factor in the continuing divergence in the economic fortunes of blacks and whites. The argument for class, most eloquently and influentially stated by William Julius Wilson in his 1978 book *The Declining Significance of Race*, suggests that the racial barriers of the past are less important than present-day social class attributes in determining the economic life chances of black Americans. Education, in particular, is the key attribute in whether blacks will achieve economic success relative to white Americans. Discrimination and racism, while still actively practiced in many spheres, have marginally less effect on black Americans' economic attainment than whether or not blacks have the skills and education necessary to fit in a changing economy. In this view, race assumes importance only as the lingering product of an oppressive past. As Wilson observes, this time in his *Truly Disadvantaged*, racism and its most harmful injuries occurred in the past, and they are today experienced mainly by those on the bottom of the economic ladder, as "the accumulation of disadvantages . . . passed from generation to generation."

We believe that a focus on wealth reveals a crucial dimension of the seeming paradox of continued racial inequality in American society. Looking at wealth helps solve the riddle of seeming black progress alongside economic deterioration. Black wealth has grown, for example, at the same time that it has fallen further behind that of whites. Wealth reveals an array of insights into black and white inequality that challenge our conception of racial and social justice in America. The continuation of persistent and vast wealth discrepancies among blacks and whites with similar achievements and credentials presents another daunting social policy dilemma. At stake here is a disturbing break in the link between achievement and rewards. If educational attainment is the panacea for racial inequality, then this break carries distressing implications for the future of democracy and social equality in America.

Disparities in wealth between blacks and whites are not the product of haphazard events, inborn traits, isolated incidents or solely contemporary individual accomplishments. Rather, wealth inequality has been structured

over many generations through the same systemic barriers that have hampered blacks throughout their history in American society: slavery, Jim Crow, so-called de jure discrimination, and institutionalized racism. How these factors have affected the ability of blacks to accumulate wealth, however, has often been ignored or incompletely sketched. By briefly recalling three scenarios in American history that produced structured inequalities, we illustrate the significance of these barriers and their role in creating the wealth gap between blacks and whites.

## **Reconstruction**

### **From Slavery to Freedom Without a Material Base**

Reconstruction was a bargain between the North and South to this effect: "We've liberated them from the land—and delivered them to the bosses."

—James Baldwin, "A Talk to Teachers"

"De slaves spected a heap from freedom dey didn't get. . . . Dey promised us a mule an' forty acres o' lan."

—Eric Foner, *Reconstruction*

The tragedy of Reconstruction is the failure of the black masses to acquire land, since without the economic security provided by land ownership the freedmen were soon deprived of the political and civil rights which they had won.

—Claude Oubre, *Forty Acres and a Mule*

The close of the Civil War transformed four million former slaves from chattel to freedmen. Emerging from a legacy of two and a half centuries of legalized oppression, the new freedmen entered Southern society with little or no material assets. With the North's military victory over the South freshly on the minds of Republican legislators and white abolitionists, there were rumblings in the air of how the former plantations and the property of Confederate soldiers and sympathizers would be confiscated and divided among the new freedmen to form the basis of their new status in society. The slave's often-cited demand of "forty acres and a mule" fueled great anticipation of a new beginning based on land ownership and a transfer of skills developed under slavery into the new economy of the South. Whereas slave muscle and skills had cleared the wilderness and made the land productive and profitable for plantation owners, the new vision saw the freedmen's hard work and skill generating income and resources for the former slaves themselves. W. E. B. Du Bois, in his *Black*

*Reconstruction in America*, called this prospect America's chance to be a modern democracy.

Initially it appeared that massive land redistribution from the Confederates to the freedmen would indeed become a reality. Optimism greeted Sherman's March through the South, and especially his Order 15, which confiscated plantations and redistributed them to black soldiers. Such wartime actions were eventually rescinded and some soldiers who had already started to cultivate the land and build new lives were forced to give up their claims. Real access to land for the freedman had to await the passage of the Southern Homestead Act in 1866, which provided a legal basis and mechanism to promote black landownership. In this legislation public land already designated in the 1862 Homestead Act, which applied only to non-Confederate whites but not blacks, was now opened up to settlement by former slaves in the tradition of homesteading that had helped settle the West. The amount of land involved was substantial, a total of forty-six million acres. Applicants in the first two years of the Homestead Act were limited to only eighty acres, but subsequently this amount increased to 160 acres. The Freedmen's Bureau administered the program, and there was every reason to believe that in reasonable time slaves would be transformed from farm laborers to yeomanry farmers.

This social and economic transformation never occurred. The Southern Homestead Act failed to make newly freed blacks into a landowning class or to provide what Gunnar Myrdal in *An American Dilemma* called "a basis of real democracy in the United States." Indeed, features of the legislation worked against its use as a tool to empower blacks in their quest for land. First, instead of disqualifying former Confederate supporters as the previous act had done, the 1866 legislation allowed all persons who applied for land to swear that they had not taken up arms against the Union or given aid and comfort to the enemies. This opened the door to massive white applications for land. One estimate suggests that over three-quarters (77.1 percent) of the land applicants under the act were white. In addition, much of the land was poor swampland and it was difficult for black or white applicants to meet the necessary homesteading requirements because they could not make a decent living off the land. What is more important, blacks had to face the extra burden of racial prejudice and discrimination along with the charging of illegal fees, expressly discriminatory court challenges and court decisions, and land speculators. While these barriers faced all poor and illiterate applicants,

Michael Lanza has stated in his *Agrarianism and Reconstruction Politics* that "The freedmen's badge of color and previous servitude complicated matters to almost incomprehensible proportions."

Gunnar Myrdal's *An American Dilemma* provides the most cogent explanation of the unfulfilled promise of land to the freedman in an anecdotal passage from a white Southerner. Asked, "Wouldn't it have been better for the white man and the Negro" if the land had been provided? the old man remarked emphatically:

"No, for it would have made the Negro 'uppity.'" . . . and "the real reason . . . why it wouldn't do, is that we are having a hard time now keeping the nigger in his place, and if he were a landowner, he'd think he was a bigger man than old Grant, and there would be no living with him in the Black District. . . . Who'd work the land if the niggers had farms of their own?"

Nevertheless, the extent of black landowning was remarkable given the economically deprived backgrounds from which the slaves emerged. Blacks had significant landholdings in the 1870s in South Carolina, Virginia, and Arkansas according to Du Bois's *Black Reconstruction in America*. Michael Lanza has suggested that while the 1866 act did not benefit as many blacks as it should have, it did provide part of the basis for the fact that by 1900 one-quarter of Southern black farmers owned their own farms. One could add that if the Freedmen's Bureau had succeeded, black landowners would have been much more prevalent in the South by 1900, and their wealth much more substantial.

John Rock, abolitionist, pre-Civil War orator, successful Boston dentist and lawyer, and the first African American attorney to plead before the U.S. Supreme Court, expressed great hope in 1858 that property and wealth could be the basis of racial justice:

When the avenues of wealth are opened to us we will become educated and wealthy, and then the roughest-looking colored man that you ever saw . . . will be pleasanter than the harmonies of Orpheus, and black will be a very pretty color. It will make our jargon, wit—our words, oracles; flattery will then take the place of slander, and you will find no prejudice in the Yankee whatsoever.

## **The Suburbanization of America**

### **The Making of the Ghetto**

Because of racial discrimination, blacks were unable to enter the housing market on the same terms as other groups before them. Thus, the

most striking feature of black life was not slum conditions, but the barriers that middle-class blacks encountered trying to escape the ghetto.

—Kenneth T. Jackson, *Crabgrass Frontier*

A government offering such bounty to builders and lenders could have required compliance with nondiscriminatory policy. . . . Instead, FHA adopted a racial policy that could well have been culled from the Nuremberg laws. From its inception FHA set itself up as the protector of the all-white neighborhood. It sent its agents into the field to keep Negroes and other minorities from buying houses in white neighborhoods.

—Charles Abrams, *Forbidden Neighbors*

The suburbanization of America was principally financed and encouraged by actions of the federal government, which supported suburban growth from the 1930s through the 1960s by way of taxation, transportation, and housing policy. Taxation policy, for example, provided greater tax savings for businesses relocating to the suburbs than to those who stayed and made capital improvements to plants in central city locations. As a consequence, employment opportunities steadily rose in the suburban rings of the nation's major metropolitan areas. In addition, transportation policy encouraged freeway construction and subsidized cheap fuel and mass-produced automobiles. These factors made living on the outer edges of cities both affordable and relatively convenient. However, the most important government policies encouraging and subsidizing suburbanization focused on housing. In particular, the incentives that government programs gave for the acquisition of single-family detached housing spurred both the development and financing of the tract home, which became the hallmark of suburban living. While these governmental policies collectively enabled over thirty-five million families between 1933 and 1978 to participate in homeowner equity accumulation, they also had the adverse effect of constraining black Americans' residential opportunities to central-city ghettos of major U.S. metropolitan communities and denying them access to one of the most successful generators of wealth in American history—the suburban tract home.

This story begins with the government's initial entry into home financing. Faced with mounting foreclosures, President Roosevelt urged passage of a bill that authorized the Home Owners Loan Corporation (HOLC). According to Kenneth Jackson's *Crabgrass Frontier*, the HOLC "refinanced tens of thousands of mortgages in danger of default or foreclosure." Of more

importance to this story, however, it also introduced standardized appraisals of the fitness of particular properties and communities for both individual and group loans. In creating "a formal and uniform system of appraisal, reduced to writing, structured in defined procedures, and implemented by individuals only after intensive training, government appraisals institutionalized in a rational and bureaucratic framework a racially discriminatory practice that all but eliminated black access to the suburbs and to government mortgage money." Charged with the task of determining the "useful or productive life of housing" they considered to finance, government agents methodically included in their procedures the evaluation of the racial composition or potential racial composition of the community. Communities that were changing racially or were already black were deemed undesirable and placed in the lowest category. The categories, assigned various colors on a map ranging from green for the most desirable, which included new, all-white housing that was always in demand, to red, which included already racially mixed or all-black, old, and undesirable areas, subsequently were used by Federal Housing Authority (FHA) loan officers who made loans on the basis of these designations.

Established in 1934, the FHA aimed to bolster the economy and increase employment by aiding the ailing construction industry. The FHA ushered in the modern mortgage system that enabled people to buy homes on small down payments and at reasonable interest rates, with lengthy repayment periods and full loan amortization. The FHA's success was remarkable: housing starts jumped from 332,000 in 1936 to 619,000 in 1941. The incentive for home ownership increased to the point where it became, in some cases, cheaper to buy a home than to rent one. As one former resident of New York City who moved to suburban New Jersey pointed out, "We had been paying \$50 per month rent, and here we come up and live for \$29.00 a month." This included taxes, principal, insurance, and interest.

This growth in access to housing was confined, however, for the most part to suburban areas. The administrative dictates outlined in the original act, while containing no antiurban bias, functioned in practice to the neglect of central cities. Three reasons can be cited: first, a bias toward the financing of single-family detached homes over multifamily projects favored open areas outside of the central city that had yet to be developed over congested central-city areas; second, a bias toward new purchases over repair of existing homes prompted people to move out of the city rather than upgrade or improve

their existing residences; and third, the continued use of the “unbiased professional estimate” that made older homes and communities in which blacks or undesirables were located less likely to receive approval for loans encouraged purchases in communities where race was not an issue.

While the FHA used as its model the HOLC’s appraisal system, it provided more precise guidance to its appraisers in its *Underwriting Manual*. The most basic sentiment underlying the FHA’s concern was its fear that property values would decline if a rigid black and white segregation was not maintained. The *Underwriting Manual* openly stated that “if a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes” and further recommended that “subdivision regulations and suitable restrictive covenants” are the best way to ensure such neighborhood stability. The FHA’s recommended use of restrictive covenants continued until 1949, when, responding to the Supreme Court’s outlawing of such covenants in 1948 (*Shelley v. Kraemer*), it announced that “as of February 15, 1950, it would not insure mortgages on real estate subject to covenants.”

Even after this date, however, the FHA’s discriminatory practices continued to have an impact on the continuing suburbanization of the white population and the deepening ghettoization of the black population. While exact figures regarding the FHA’s discrimination against blacks are not available, data by county show a clear pattern of “redlining” in central-city counties and abundant loan activity in suburban counties.

The FHA’s actions have had a lasting impact on the wealth portfolios of black Americans. Locked out of the greatest mass-based opportunity for wealth accumulation in American history, African Americans who desired and were able to afford home ownership found themselves consigned to central-city communities where their investments were affected by the “self-fulfilling prophecies” of the FHA appraisers: cut off from sources of new investment their homes and communities deteriorated and lost value in comparison to those homes and communities that FHA appraisers deemed desirable. One infamous housing development of the period—Levittown—provides a classic illustration of the way blacks missed out on this asset-accumulating opportunity. Levittown was built on a mass scale, and housing there was eminently affordable, thanks to the FHA’s and VHA’s accessible financing, yet as late as 1960 “not a single one of the Long Island Levittown’s 82,000 residents was black.”

## Contemporary Institutional Racism Access to Mortgage Money and Redlining

It can now no longer be doubted that banks are discriminating against blacks who try to get home mortgages in city after city across the United States. . . . In many cities, high-income blacks are denied mortgage loans more frequently than low-income whites. This is a persuasive index of bias, whether conscious or not. . . . Construction of single-family housing is practically nonexistent, and much of the older housing is in disrepair. Some desperate homeowners, forced out of the conventional mortgage market, have fallen prey to unscrupulous lenders charging usurious rates of interest.

—*Boston Globe*, 22 October 1991

For years, racial discrimination in mortgage lending has been considered an issue of geographic “redlining” by banks reluctant to lend in minority neighborhoods. But new evidence raises the specter of an even more insidious form of discrimination, one that follows blacks wherever they live and no matter how much they earn.

—*Boston Globe*, 27 October 1991

In May of 1988 the issue of banking discrimination and redlining exploded onto the front pages of the *Atlanta Journal and Constitution*. This Pulitzer Prize-winning series, “The Color of Money,” described the wide disparity in mortgage-lending practices in black and white neighborhoods of Atlanta, finding black applicants rejected at a greater rate than whites, even when economic situations were comparable. The practice of geographic redlining of minority neighborhoods detailed in the articles had long been suspected, but one city’s experience was not taken as conclusive evidence of a national pattern. Far more comprehensive evidence was soon forthcoming.

A 1991 Federal Reserve study of 6.4 million home mortgage applications by race and income confirmed suspicions of bias in lending by reporting a widespread and systemic pattern of institutional discrimination in the nation’s banking system. This study disclosed that commercial banks rejected black applicants twice as often as whites nationwide. In some cities, like Boston, Philadelphia, Chicago, and Minneapolis, it reported a more pronounced pattern of minority loan rejections, with blacks being rejected three times more often than whites.

The argument that financial considerations—not discrimination—are the reason minorities get fewer loans appears to be totally refuted by the Federal Reserve study. The poorest white applicant, according to this report,

was more likely to get a mortgage loan approved than a black in the highest income bracket. In Boston, for example, blacks in the highest income levels faced loan rejections three times more often than whites. These findings and reactions from bankers and community activists appeared in newspapers across the country. Bankers refuted the study's findings, labeling it unfair because "creditworthiness" was not considered. A later Federal Reserve study in 1992, taking creditworthiness into account, tempered the severity of bias but not the basic conclusion. We discuss this report more thoroughly in chapter 6.

The problem goes beyond redlining. Not only were banks reluctant to lend in minority communities, but the Federal Reserve study indicates that discrimination follows blacks no matter where they want to live and no matter how much they earn. A 1993 *Washington Post* series highlighted banks' reluctance to lend even in the wealthiest black neighborhoods. One of the capital's most affluent black neighborhoods is the suburban community of Kettering in Prince George's County, Maryland. The average household income is \$65,000 a year and the typical Kettering home has four or five bedrooms, a two-car garage, and a spacious lot. Local banks granted proportionately more loans in low-income white communities than they did in Kettering or any other high-income black neighborhoods. In Boston high-income blacks seeking homes outside the city's traditional black community confronted mortgage refusals far more often than whites who live on the same streets and who earn similar incomes. Previously banks responded to allegations of redlining by saying that it is only natural to have higher loan-rejection rates in minority communities because a greater proportion of low-income families live there. The lending patterns disclosed in the 1991 Federal Reserve study shows, however, that disproportionate mortgage denial rates for blacks have little, if any, relation to neighborhood or income. The *Boston Globe* of 22 October 1991 cites Massachusetts congressman Joe Kennedy to the effect that the study's results "portray an America where credit is a privilege of race and wealth, not a function of ability to pay back a loan."

These findings gave credence to the allegations of housing and community activists that banks have been strip-mining minority neighborhoods of housing equity through unscrupulous backdoor loans for home repairs. Homes bought during the 1960s and 1970s in low-income areas had acquired some equity but were also in need of repair. Mainstream banks refused to approve such loans at "normal" rates, but finance companies made loans that,

according to activists, preyed on minority communities by charging exorbitant, pawnshop-style interest rates with unfavorable conditions. Rates of 34 percent and huge balloon payments were not uncommon. Mainstream banks repurchased many of these loans, and the subsequent foreclosure rates were very high. Civil rights activists noted, as reported in the 23 January 1989 *Los Angeles Times*, that this "rape" of minority communities was aided and abetted by the Reagan administration's weakening of the regulatory system built up in the 1960s and 1970s to combat redlining.

In Atlanta Christine Hill's story is typical. It started with a leaky roof and ended in personal bankruptcy, foreclosure, and eviction. Using Hill's home as collateral, the lender charged interest that, according to Rob Wells's piece in the 10 January 1993 *Chicago Tribune* "made double-digit pawnshop rates look like bargains." The Hills couldn't pay. The lender was a small and unregulated mortgage firm, similar to those often chosen by low-income borrowers because mainstream banks consider them too poor or financially unstable to qualify for a normal bank loan. Approximately twenty thousand other low-income Georgian homeowners found themselves in a similar predicament. The attorney representing some of them is quoted in Wells's *Tribune* article as saying: "This is a system of segregation, really. We don't have separate water fountains, but we have separate lending institutions." Senator Donald Riegle of Michigan in announcing a Senate Banking Committee hearing on abuse in home equity and second mortgage lending pointed to "reverse redlining." This means providing credit in low-income neighborhoods on predatory terms and "taking advantage of unsophisticated borrowers."

In Boston more than one-half of the families who relied on these kinds of high-interest loans lost their homes through foreclosure. One study charted every loan between 1984 and mid-1991 made by two high-interest lenders. Families lost their homes or were facing foreclosure in over three-quarters of the cases. Only fifty-five of the 406 families still possessed their homes and did not face foreclosure. The study also showed that the maps of redlined areas and high-interest loans overlapped.

Across the country a strikingly similar pattern emerged regarding home-repair loans. Banks redlined extensive sections of minority communities, denying people not only access to home mortgages but access to home-repair loans as well. States inexplicably failed to license or regulate home-repair contractors. Home-repair sales people went door to door in the redlined areas "soliciting" business, and their subsequent billing routinely far exceeded their

estimates. Finally, the high-interest mortgages needed to procure the home-repair work were secured through finance companies, often using existing home equity as collateral in a second mortgage. Mainstream banks then often bought these high-interest loans.

Even briefly recalled, the three historical moments evoked in the pages above illustrate the powerful dynamics generating structured inequality in America. Several common threads link the three scenarios. First, whether it be a question of homesteading, suburbanization, or redlining, we have seen how governmental, institutional, and private-sector discrimination enhances the ability of different segments of the population to accumulate and build on their wealth assets and resources, thereby raising their standard of living and securing a better future for themselves and their children. The use of land grants and mass low-priced sales of government lands created massive and unparalleled opportunities for Americans in the nineteenth century to secure title to land in the westward expansion. Likewise, government backing of millions of low-interest loans to returning soldiers and low-income families enabled American cities to suburbanize and their inhabitants to see tremendous home value growth after World War II. Quite clearly, black Americans for the most part were unable to secure the same degree of benefits from these government programs as whites were. Indeed, in many of these programs the government made explicit efforts to exclude blacks from participating in them, or to limit their participation in ways that deeply affected their ability to gain the maximum benefits. As our discussion indicates, moreover, contemporary patterns of institutional bias continue to directly inhibit the ability of blacks to buy homes in black communities, or elsewhere. As a result of this discrimination, blacks have been blocked from home ownership altogether or they have paid higher interest rates to secure residential loans.

Second, disparities in access to housing created differential opportunities for blacks and whites to take advantage of new and more lucrative opportunities to secure the good life. White families who were able to secure title to land in the nineteenth century were much more likely to finance education for their children, provide resources for their own or their children's self-employment, or secure their political rights through political lobbies and the electoral process. Blocked from low-interest government-backed loans, redlined out by financial institutions, or barred from home ownership by banks, black families have been denied the benefits of housing inflation and the subsequent vast increase in home equity assets. Black Americans who failed to

secure this economic base were much less likely to be able to provide educational access for their children, secure the necessary financial resources for self-employment, or participate effectively in the political process.

The relationship between how material assets are created, expanded, and preserved and racial inequality provides the focus of this book. From the standpoint of the late twentieth century we offer an examination of black and white wealth inequality that, we firmly believe, will substantially enhance our understanding of racial inequality in the United States.

Before proceeding, however, it is necessary to set the larger context for an investigation of racial differentials in this chapter. The critical importance of the notion of equality needs a firm foundation. It is similarly crucial to present the logic behind and the importance of examining wealth as an indicator of life chances and inequality.

### **Racial Inequality in Context**

At the most general level, "social inequality" means patterned differences in people's living standards, life chances, and command over resources. While this broadly defined concern involves many complex layers, our analysis will focus mainly on the fundamental material aspects of inequality. The specific level of analysis will thus feature disparities in life chances and command over economic resources between and among blacks and whites.

Taking into account the long history of black oppression in America, the overall social status of African Americans improved dramatically from 1939 to the early 1970s as a result of the civil rights movement coupled with a period of extraordinary economic growth. Civil rights laws ended many forms of segregation and paved the way for some improvement in blacks' position. The evidence for this improvement includes a sizable increase in the number of blacks in professional, technical, managerial, and administrative positions since the early 1960s; a near doubling of blacks in colleges and universities between 1970 and 1980; and a large increase in home ownership among blacks. Twice as many black families were earning a middle-class income in 1982 as in 1960. Furthermore, the number of blacks elected to public office more than tripled during the 1970s. Blacks hold prominent positions at major universities, in corporations, government, sports, and television and films.

The most visible advances for blacks since the 1960s have taken place in the political arena. As a result of the civil rights movement, the percentage of Southern blacks registered to vote rose dramatically. The number of black

elected officials increased and the black vote became a crucial and courted electoral block. Yet, in 1993, blacks still accounted for less than 2 percent of all elected officials. The political power of black officials is limited by their political isolation. Norman Yetman explains in his *Majority and Minority* that "given the exodus of white middle-class residents and businesses to the suburbs, African Americans often find they have gained political power without the financial resources with which to provide the jobs and services (educational, medical, police and fire protection) that their constituents most urgently need."

Since the 1960s blacks have also made gains in education. By the late 1980s the proportion of blacks and whites graduating from high school was about equal, reversing the late-1950s black disadvantage of two to one. The percentage of blacks and whites attending college in 1977 was virtually identical, again reversing a tremendous black disadvantage. Since 1976, however, black college enrollments and completion rates have declined, threatening to wipe out the gains of the 1960s and 1970s. The trends in the political and education areas indicate qualified improvements for blacks.

Full equality, however, is still far from being achieved. Alongside the evidence of advancement in some areas and the concerted political mobilization for civil rights, the past two decades also saw an economic degeneration for millions of blacks, and this constitutes the crux of a troubling dilemma. Poor education, high joblessness, low incomes, and the subsequent hardships of poverty, family and community instability, and welfare dependency plague many African Americans. Most evident is the continuing large economic gap between blacks and whites. Median income figures show blacks earning only about 55 percent of the amount made by whites. The greatest economic gains for blacks occurred in the 1940s and 1960s. Since the early 1970s, the economic status of blacks compared to that of whites has, on average, stagnated or deteriorated. Black unemployment rates are more than twice those of whites. Black youths also have more than twice the jobless rate as white youths. Nearly one out of three blacks lives in poverty, compared with fewer than one in ten whites. Residential segregation remains a persistent problem today, with blacks being more likely than whites with similar incomes to live in overcrowded and substandard housing. Nearly one in four blacks remains outside private health insurance or Medicaid coverage. Infant mortality rates have dropped steadily since 1940 for all Americans, but the odds of dying shortly after birth are consistently twice as high for blacks as for whites. Close

to half (43 percent) of all black children officially lived in poor households in 1986. A majority of black children live in families that include their mother but not their father. The word "paradoxical" thus aptly characterizes the contemporary situation of African Americans. A recent major accounting of race relations summarized it like this: "the status of black America today can be characterized as a glass that is half full—if measured by progress since 1939—or a glass that is half empty—if measured by the persisting disparities between black and white Americans."

The distribution of wealth may reveal much about the dynamics and paradoxical character of racial inequality. Let's briefly look at a couple of examples. White and black incomes are nearing equality for married-couple families in which both husband and wife work: in 1984 such black households earned seventy-seven cents for every dollar taken home by their white counterparts. Yet in 1984 dual-income black households possessed only nineteen cents of mean financial assets for every dollar their white counterparts owned. A black-to-white income ratio of 77 percent represents advancement and is cause for celebration, while a 19 percent wealth ratio signals the persistence of massive inequality. The rapidly growing proportion of middle-income earners among blacks is often cited as evidence of the newly achieved middle-class status of blacks. A focus on wealth, by contrast, alerts one to persistent dimensions of racial inequality. For every dollar of mean net financial assets owned by white middle-income households (yearly incomes of \$25,000–50,000) in 1984, similar black households held only twenty cents.

### **Dwindling Economic Growth and Rising Inequality**

The standard of living of American households is in serious trouble. For two decades the United States has been evolving into an increasingly unequal society. After improving steadily since World War II, the real (adjusted-for-inflation) weekly wage of the average American worker peaked in 1973. During the twenty-seven-year postwar boom the average worker's wages outpaced inflation every year by 2.5 to 3 percent. The standard of living of most Americans improved greatly, as many people bought cars, homes, appliances, televisions, and other big-ticket consumer goods for the first time. The link between growth and mobility was readily apparent. Between the end of World War II and the early to mid-1970s, the economy created a steady stream of jobs that permitted workers and their families to escape poverty and become part of a growing and vibrant middle class. The economy could absorb millions of new

workers and a growing part of the population found middle-class life within reach. Incomes grew faster than dreams. Dreams became grander. Working families could even afford a comfortable lifestyle with one breadwinner in the work force. Rising incomes also helped to fund a larger welfare state to assist people at the bottom of the distribution.

Since 1973, however, a far bleaker story has unfolded. Real wages have been falling or stagnating for most families. The 1986 average wage in the United States bought nearly 14 percent less than it had thirteen years earlier. Also beginning in the mid-1970s, after a long period of movement toward greater equality and stability, the distribution of annual wages and salaries became increasingly unequal. Bennett Harrison and Barry Bluestone in their 1988 book *The Great U-Turn* detail the reasons for this turnaround, led primarily by a growing polarization of wages. They make a strong case that the overall deterioration in the living standards of many Americans is traceable mainly to structural economic and corporate changes: "the increasingly vulnerable position of the United States in the volatile global economic system, the particular strategies adopted by corporate managers to reduce the cost of labor in an effort to cope with the profit squeeze engendered by this heightened competition, and the many ways in which the U.S. government has encouraged those corporate experiments in restructuring." The link between slow wage growth and growing inequality is subtle, involving the way in which economic and political processes have divided a slowly growing pie.

These changes have profoundly affected blacks. Plant closings and deindustrialization more often occur in industries employing large concentrations of blacks such as the steel, rubber, and automobile sectors. Black men, especially young black men, are more likely than whites to lose their jobs as a result of economic restructuring. One study of deindustrialization in the Great Lakes region found that black male production workers were hardest hit by the industrial slump of the early 1980s. From 1979 to 1984 one-half of black males in durable-goods manufacturing in five Great Lakes cities lost their jobs.

The fading middle-class dream, shrinking incomes, and soaring costs have prompted an assortment of survival strategies affecting the quality of life. Individuals marry later, families postpone having children, more families send additional members into the work force, young adults stay longer with the families that raised them, and leisure time is reduced as individuals work longer hours. The ability, perhaps shortsighted, of consumers, government,

and businesses to maintain accustomed spending levels by accumulating more and more debt may have kept hidden the 1980s jobs and wage declines.

Besides these demographic adjustments and changes in basic social organization, keeping the middle-class dream alive also required financial modifications. Certainly there is no better symbol of the American Dream than home ownership. Overall home ownership rates peaked in the mid- to late 1970s, with young families finding it most difficult to enter the overheated, inflationary housing market. Between 1974 and 1983, home-ownership rates for those under age twenty-five fell from 23.4 percent to 19.4 percent. For those between twenty-five and twenty-nine years of age the decline was from 43.6 percent to 40.7 percent. No wonder. Frank Levy and Richard Michel calculate that in 1959 the average thirty-year-old male afforded a median priced house on 16 percent of his monthly earnings; by 1973 it took 21 percent of the average wage of a thirty-year-old male to afford a median priced house; and in 1983 it took 44 percent of his monthly paycheck. As we have shown elsewhere, by 1990 the average home consumed nearly one-half (48 percent) of his paycheck. If the future was not bleak, minimally it was much more expensive than it had been to purchase a home and something else had to be sacrificed. It is no mystery, then, why home-ownership rates have been declining for young families. The decline in home-ownership rates would have been greater had it not been for two paycheck households, smaller families, financial help from parents (particularly for first-time home buyers), and the purchase of smaller homes.

The underlying weakness of the economy in the 1990s is increasingly apparent. Debt and global competition pose enormous challenges to stable economic growth and vitality. The larger economic context for the analysis of contemporary race relations is dominated by slow or stagnant growth, deindustrialization, a two-tiered job and earning structure, cuts in the social programs that assist those at the bottom, budget deficits, increasing economic inequality, a reconcentration of wealth, a growing gap in incomes between whites and blacks, and a much-diminished American Dream, however one wishes to define or gauge it.

Politicians find it fashionable, and rewarding, to discuss and court America's declining "middle class." Meanwhile, little political currency is given to how economic restructuring and political processes are also reshaping racial inequalities. Racial economic inequality significantly decreased during the postwar period until the early 1970s, as measured by average

black-to-white income comparisons. The role played by economic growth in promoting equality was evident, at the same time that the political mobilization of blacks and whites, civil rights measures, social programs, and a raised public consciousness in the 1960s contributed as well to narrowing the gap between the races. Declining economic fortunes since 1973 coupled with a changed public attitude on civil rights and the easing of federal enforcement have stalled or reversed many of blacks' postwar advances. The median income of black families in 1990 was virtually the same as it had been in 1970. Providing an ominous bellwether, the postwar pattern of greater black-white income equality began to reverse in 1973, as the gap between black and white incomes started to grow wider again, in both absolute and relative terms.

Most social scientists and members of the knowledgeable public share this assessment of the facts, if they do not agree on its causes. Even, the conservative analyst and political operative Kevin Phillips acknowledged, in his 1990 book *The Politics of Rich and Poor*, that during the early 1970s "caste and class restraints that had eased after World War II began to reemerge."

One traditional line of explanation regarding observed inequalities in status or income among racially or ethnically differentiated groups involves the idea of natural inequalities in ability or chance occurrences like luck. In this view inequality is the result of "natural" causes found in all societies and is thus to be expected; structural inequality is viewed as minimal. Another tradition explains observed inequalities by focusing on barriers to equal opportunity. This view pays attention to policies designed to minimize structural or institutional barriers to equal opportunity, or to remedy historical injustices. Indeed, one premise of the modern welfare state in industrialized countries, now under serious challenge, is that it is the role of the state to secure equal opportunity for economically disadvantaged and politically disenfranchised groups. The presumption here is that welfare, tax, housing, child, and educational policies can act to bolster the opportunities of otherwise disadvantaged groups and individuals.

An investigation of wealth presents an important challenge to these perspectives. A brief descriptive glance at wealth inequality should demonstrate the ultimately ideological character of the first position. The second view, one closer to our hearts, may also wither when confronted with an analysis of wealth. What if, for example, inequalities in opportunity are narrowing for minorities but huge cleavages and disparities in wealth remain? Put another way, what if strides toward equality of opportunity do not result

in a reduction of social inequality? We suggest that one theoretical and political implication of our unfolding argument involves a rethinking of equal opportunity, one that radically extends the concept to encompass asset formation as well as income enhancement and maintenance.

### **Income and Wealth Inequality**

The accumulation of wealth is difficult for most Americans. Whatever we attain in the form of wages and salaries does not easily convert into wealth assets, because immediate necessities deplete our available resources. Income is distributed in a highly unequal manner in the United States, as in all societies. For example, the top 20 percent of earners receive 43 percent of all income while the poorest one-fifth of the population receives a scant 4 percent of the total income. The distribution of wealth is even more unequal, making the pattern of income distribution look like a comparative leveler's paradise.

Recognizing that wealth is distributed far more unequally than income, however, does not intuitively lead to a greater understanding of the different origins of income and wealth inequality. Great wealth is likely to be inherited in the United States today; thus the base of many high incomes is also inherited. Thomas Dye's 1979 *Who's Running America* updated C. Wright Mills's classic 1950 study of the social backgrounds of the nation's richest men, *The Power Elite*, to 1970. In asking whether great wealth was largely inherited or earned, Dye found that 39 percent of the wealthiest men in America came from the upper social class in 1900; by 1950, 68 percent of the richest men were born to wealth; and this figure climbed to 82 percent by 1970. C. Wright Mills estimates that 39 percent of the richest men in 1900 had struggled up from the bottom, whereas Dye finds that by 1970 only 4 percent of the richest men came from lower-class origins. The important issue of the role of inherited wealth in financial success is a subject of considerable contention among economists, whose theoretically driven models of the significance of inherited wealth support a wide and quite contradictory range of findings. For example, one viewpoint concludes that the bulk of wealth accumulation, about 80 percent, is due to intergenerational transfers; another view argues that the contribution of inherited wealth is closer to 20 percent. Chapter 4 examines the relationship between income and wealth in considerably more depth.

### **Why Study Wealth?**

Income is the standard way to study and evaluate family well-being and

progress in social justice and equality in the United States. Some of the best work in the emerging area of wealth studies is done by Edward Wolff, who points out in his 1995 article "The Rich Get Increasingly Richer" that families receiving similar income can experience different levels of economic well-being depending on assets such as housing and consumer durables. Wealth can create certain income flows like interest from bank accounts or dividends from stocks. Even wealth that produces no income, like owner-occupied housing or vehicles, can help secure a family's well-being and stability by using up only minimal housing and transportation expenditures out of income or by providing the resources to survive economic and personal crises.

Over thirty years ago Richard Titmuss cautioned in his 1962 book *Income Distribution and Social Change* that the study of material equality and inequality must look beyond income. He had in mind a broader notion of life chances than the standard of living commonly measured by income. Unfortunately, social scientists have not thought carefully about Titmuss's advice, nor have they been very careful in distinguishing between income and wealth. One result is that income remains the sole lens through which we view family well-being, economic inequality, and progress in social justice.

Although related, income and wealth have different meanings. *Wealth* is the total extent, at a given moment, of an individual's accumulated assets and access to resources, and it refers to the net value of assets (e.g., ownership of stocks, money in the bank, real estate, business ownership, etc.) less debt held at one time. Wealth is anything of economic value bought, sold, stocked for future disposition, or invested to bring an economic return. *Income* refers to a flow of dollars (salaries, wages, and payments periodically received as returns from an occupation, investment, or government transfer, etc.) over a set period, typically one year.

There are many reasons why income has become a surrogate for wealth. Lack of access to systematic, reliable data on wealth accumulation explains the retreat from thoroughgoing and methodical analyses of wealth-holding patterns in American society. One paradox is that data on wealth gets better the further back in time one goes. Federal censuses in the mid-1800s provided adequate representation of wealth holdings. No comprehensive census of wealth has appeared since the mid-nineteenth century.

Some explicitly argue that income can substitute for wealth. Many contend that the two present different sides of a single coin, since vast wealth

generates extremely high income and extremely high income creates enormous wealth. Thus income inequality within the United States also indicates whether growth in wealth inequality has reached critical political or economic levels. As Denny Braun notes in *The Rich Get Richer*, because of the difficulty in finding wealth data as opposed to income data, it is easier to trace income inequities and their immediate consequences than to analyze disparities in wealth holding. Wealth disparities take on a more historical, *ex post facto* character. Income data would be the only means predicting whether a politically and economically disastrous acceleration of wealth concentration was about to occur.

Three important criticisms can be made of using income as a surrogate for wealth. The first concerns the alleged relationship between the distribution of income and that of wealth. We submit that this relationship is considerably more complicated than previously envisioned. The second pertains to the inequality between sectors of the population: in the absence of data on a group's (say, blacks') share of wealth, general distributions or concentrations are not very informative measures in assessing the inequality of life chances. The third challenges the assumption that reliable wealth data cannot be procured, an assumption that is no longer valid. The appropriate theoretical inclination is to examine wealth—instead, income gets used as the next best, nearly identical piece of evidence.

Others have taken a different tack by suggesting that in modern capitalist society wealth has become separated from power, thereby presuming that wealth has declined in meaning. Thomas Dye, for example, in *Who's Running America* says it is a mistake to equate personal wealth with economic power. He rightly points out that individuals with relatively little wealth may nonetheless exercise considerable economic power because of their institutional positions and thus criticizes calls for a radical redistribution of wealth. While distinguishing between power based on personal wealth and power based on institutional position is certainly valid in some respects, the larger impression Dye casts is spurious. His estimate of how little a confiscation of the financial resources of the richest would accomplish belittles the importance of disparities in personal wealth. Alternatively, if we were to examine the life chances and opportunities of various groups, then inequities in access to wealth might assume a more major role and hold a more consequential place in our assessment of structured inequalities for racial groups.

Social theorists from Karl Marx to Max Weber to Georg Simmel have

stressed the bedrock theoretical significance of wealth. Harold Kerbo reminds us in his 1983 textbook *Social Stratification and Inequality* that “despite the importance of income inequality in the United States, in some ways wealth inequality is more significant.” Income and wealth resemble one another in some respects and differ in others. One undergoes continuous and extensive examination, while the other encounters only a rare surface scratching. Kerbo elaborates some of the ways in which wealth is significant, beyond providing income. Most people use income for day-to-day necessities. Substantial wealth, by contrast, often brings income, power, and independence. Significant wealth relieves individuals from dependence on others for an income, freeing them from the authority structures associated with occupational differentiation that constitute an important aspect of the stratification system in the United States. If money derived from wealth is used to purchase significant ownership of the means of production, it can bring authority to the holder of such wealth. Substantial wealth is important also because it is directly transferable from generation to generation, thus assuring that position and opportunity remain in the same families’ hands.

Command over resources inevitably anchors a conception of life chances. While resources theoretically imply both income and wealth, the reality for most families is that income supplies the necessities of life, while wealth represents a kind of “surplus” resource available for improving life chances, providing further opportunities, securing prestige, passing status along to one’s family, and influencing the political process.

In view of the limitations of relying on income as well as the significance of wealth, a consideration of racially marked wealth disparities should importantly complement existing income data. An investigation of wealth will also help us formulate a more detailed picture of racial differences in well-being. Most studies of economic well-being focus solely on income, but if wealth differences are even greater than those of income, then these studies will seriously underestimate racial inequality, and policies that seek to narrow differences will fail to close the gap.

# A Sociology of Wealth and Racial Inequality

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## 2

### **Understanding Racial Inequality**

African Americans are vastly overrepresented among those Americans whose lives are the most economically and socially distressed. As William Julius Wilson has argued in *The Truly Disadvantaged*, “the most disadvantaged segments of the black urban community” have come to make up the majority of “that heterogeneous grouping of families and individuals who are outside the mainstream of the American occupational system,” and who are euphemistically called the underclass. With little or no access to jobs, trapped in poor areas with bad schools and little social and economic opportunity, members of the underclass resort to crime, drugs, and other forms of aberrant behavior to make a living and eke some degree of meaning out of their materially impoverished existence. Douglas Massey and Nancy Denton’s *American Apartheid* has reinforced in our minds the crucial significance of racial segregation, which Lawrence Bobo calls the veritable “structural linchpin” of American racial inequality.

These facts should not be in dispute. What is in dispute is our understanding of the source of such resounding levels of racial inequality. What

factors were responsible for their creation and what are the sources of their continuation? Sociologists and social scientists have focused on either race or class or on some combination or interaction of the two as the overriding factors responsible for racial inequality.

A focus on race suggests that race has had a unique cultural meaning in American society wherein blacks have been oppressed in such a way as to perpetuate their inferiority and second-class citizenship. Race in this context has a socially constructed meaning that is acted on by whites to purposefully limit and constrain the black population. The foundation of this social construction is the ideology of racism. Racism is a belief in the inherent inferiority of one race in relation to another. Racism both justifies and dictates the actions and institutional decisions that adversely affect the target group.

Class explanations emphasize the relational positioning of blacks and whites in society and the differential access to power that accrues to the status of each group. Those classes with access to resources through the ownership or control of capital (in the Marxian variant) or through the occupational hierarchy (in the Weberian variant) are able to translate these resources into policies and structures through their access to power. In some cases this can be seen in the way in which those who control the economy also control the polity. In other cases it can be observed in the way in which institutional elites control institutions. In any case the class perspective emphasizes the relative positions of blacks and whites with respect to the ownership and control of the means of production and to access to valued occupational niches, both historically and contemporaneously. Because blacks have traditionally had access to few of these types of valued resources, they share an interest with the other have-nots. As Raymond Franklin notes in *Shadows of Race and Class*, "Ownership carries with it domination; its absence leads to subordination." The subordinated and unequal status of African Americans, in the class perspective, grows out of the structured class divisions between blacks and a small minority of resource-rich and powerful whites.

Each of these perspectives has been successfully applied to understanding racial inequality. However, each also has major failings. The emphasis on race creates problems of evidence. Especially in the contemporary period, as William Wilson notes in *The Declining Significance of Race*, it is difficult to trace the enduring existence of racial inequality to an articulated ideology of racism. The trail of historical evidence proudly left in previous periods is made less evident by heightened sensitivity to legal sanctions and racial civility in

language. Thus those who still emphasize race in the modern era speak of covert racism and use as evidence racial disparities in income, jobs, and housing. In fact, however, impersonal structural forces whose racial motivation cannot be ascertained are often the cause of the black disadvantage that observers identify. Likewise, class perspectives usually wash away any reference to race. Moreover, the class-based analysis that blacks united with low-income white workers and other disadvantaged groups would be the most likely source of collective opposition to current social economic arrangements has given way to continued estrangement between these groups. The materialist perspective that policy should address broad class groups as opposed to specific racial groups leaves the unique historical legacy of race untouched.

Despite these weaknesses it is imperative that race and class factors be taken into consideration in any attempt to understand contemporary racial inequality. It is clear, however, that a singular focus on one as opposed to another is counterproductive. Take, for example, earnings inequality. As economists assert, earnings are affected today more by class than by racial factors. Human capital attributes (such as education, experience, skills, etc.) that may result from historical disadvantages play an important role in the earnings gap between blacks and whites. But because of the unique position of black Americans, earnings must be viewed in relation to joblessness. If you do not have a job, you have no earnings. Here it is clear that race and class are important. As structural changes in the economy have occurred, blacks have been disproportionately disadvantaged. Such structural changes as the movement of entry-level jobs outside of the central city, the change in the economy from goods to service production, and the shift to higher skill levels have created a jobless black population. Furthermore, increasing numbers of new entrants into the labor market find low-skill jobs below poverty wages that do not support a family. Nevertheless, race is important as well. Evidence from employers shows that negative racial attitudes about black workers are still motivating their hiring practices, particularly in reference to central-city blacks and in the service economy. In service jobs nonblacks are preferred over blacks, particularly black men, a preference that contributes to the low wages blacks earn, to high rates of joblessness, and thus to earnings inequality.

Because of the way in which they reveal the effect of historical factors on contemporary processes, racial differences in wealth provide an important means of combining race and class arguments about racial inequality. We therefore turn to a theoretical discussion of wealth and race that develops

aspects of traditional race and class arguments in an attempt to illuminate the processes that have led to wealth disparities between black and white Americans.

### **Toward a Sociology of Race and Wealth**

A sociology of race and wealth must go beyond the traditional analysis of wealth that economists have elaborated. Economists begin with the assumption that wealth is a combination of inheritance, earnings, and savings and is enhanced by prudent consumption and investment patterns over a person's lifetime. Of course, individual variability in any of these factors depends on a whole set of other relationships that are sociologically relevant. Obviously one's inheritance depends on the family into which one is born. If one's family of origin is wealthy, one's chances of accumulating more wealth in a lifetime are greater. Earnings, the economists tell us, are a function of the productivity of our human capital: our education, experience, and skills. Since these are, at least in part, dependent on an investment in training activities, they can be acquired by means of inherited resources. Savings are a function of both our earning power and our consumption patterns. Spendthrifts will have little or no disposable income to save, while those who are frugal can find ways to put money aside. Those with high levels of human capital, who socially interact in the right circles, and who have knowledge of investment opportunities, will increase their wealth substantially more during their lifetime, than will those who are only thrifty. And since money usually grows over time, the earlier one starts and the longer one's money is invested, the more wealth one will be able to amass. Economists therefore explain differences in wealth accumulation by pointing to the lack of resources that blacks inherit compared to whites, their low investment in human capital, and their extravagant patterns of consumption.

Sociologists do not so much disagree with the economists' emphasis on these three factors and their relationship to human capital in explaining black-white differences in wealth; rather they are concerned that economists have not properly appreciated the social context in which the processes in question take place. Quite likely, formal models would accurately predict wealth differences. However, in the real world, an emphasis on these factors isolated from the social context misses the underlying reasons for why whites and blacks have displayed such strong differences in their ability to generate wealth. The major reason that blacks and whites differ in their ability to accumulate wealth

is not only that they come from different class backgrounds or that their consumption patterns are different or that they fail to save at the same rate but that the structure of investment opportunity that blacks and whites face has been dramatically different. Work and wages play a smaller role in the accumulation of wealth than the prevailing discourse admits.

Blacks and whites have faced an opportunity to create wealth that has been structured by the intersection of class and race. Economists rightly note that blacks' lack of desirable human capital attributes places them at a disadvantage in the wealth accumulation process. However, those human capital deficiencies can be traced, in part, to barriers that denied blacks access to quality education, job training opportunities, jobs, and other work-related factors. Below we develop three concepts—the racialization of the state, the economic detour, and the sedimentation of racial inequality—to help us situate the distinct structures of investment opportunity that blacks and whites have faced in their attempts to generate wealth.

### **Racialization of the State**

The context of one's opportunity to acquire land, build community, and generate wealth has been structured particularly by state policy. Slavery itself, the most constricting of social systems, was a result of state policy that gave blacks severely limited economic rights. Slaves were by law not able to own property or accumulate assets. In contrast, no matter how poor whites were, they had the right—if they were males, that is—if not the ability, to buy land, enter into contracts, own businesses, and develop wealth assets that could build equity and economic self-sufficiency for themselves and their families. Some argue that it was the inability to participate in and develop a habit of savings during slavery that directly account for low wealth development among blacks today. Using a cultural argument, they assert that slaves developed a habit of excessive consumerism and not one of savings and thrift. This distorts the historical reality, however. While slaves were legally not able to amass wealth they did, in large numbers, acquire assets through thrift, intelligence, industry, and their owners' liberal paternalism. These assets were used to buy their own and their loved ones' freedom, however, and thus did not form the core of a material legacy that could be passed from generation to generation. Whites could use their wealth for the future; black slaves' savings could only buy the freedom that whites took for granted.

Slavery was only one of the racialized state policies that have inhibited the

acquisition of assets for African Americans. As we have seen in chapter 1, the homestead laws that opened up the East during colonial times and West during the nineteenth century created vastly different opportunities for black and white settlers. One commentator even suggests land grants “allowed three-fourths of America’s colonial families to own their own farms.” Blacks settlers in California, the “Golden State,” found that their claims for homestead status were not legally enforceable. Thus African Americans were largely barred from taking advantage of the nineteenth-century federal land-grant program.

A centerpiece of New Deal social legislation and a cornerstone of the modern welfare state, the old-age insurance program of the Social Security Act of 1935 virtually excluded African Americans and Latinos, for it exempted agricultural and domestic workers from coverage and marginalized low-wage workers. As Gwendolyn Mink shows in “The Lady and the Tramp,” men’s benefits were tied to wages, military service, and unionism rather than to need or any notion of equality. Thus blacks were disadvantaged in New Deal legislation because they were historically less well paid, less fully employed, disproportionately ineligible for military service, and less fully unionized than white men. Minority workers were covered by social security and New Deal labor policies if employed in eligible occupations and if they earned the minimum amount required. Because minority wages were so low, minority workers fell disproportionately below the threshold of coverage in comparison to whites. In 1935, for example, 42 percent of black workers in occupations covered by social insurance did not earn enough to qualify for benefits compared to 22 percent for whites.

Not only were blacks initially disadvantaged in their eligibility for social security, but they have disproportionately paid more into the system and received less. Because social security contributions are made on a flat rate and black workers earn less, as Jill Quadagno explains in *The Color of Welfare*, “black men were taxed on 100 percent of their income, on average, while white men earned a considerable amount of untaxed income.” Black workers also earn lower retirement benefits. And benefits do not extend as long as for whites because their life span is shorter. Furthermore, since more black women are single, divorced, or separated, they cannot look forward to sharing a spouse’s benefit. As Quadagno notes, again, the tax contributions of black working women “subsidize the benefits of white housewives.” In many ways social security is a model state program that allows families to preserve assets

built over a lifetime. For African Americans, however, it is a different kind of model of state bias. Initially built on concessions made to white racial privilege in the South, the social security program today is a system in which blacks pay more to receive less. It is a prime example of how the political process and state policy build opportunities for asset accumulation sharply skewed along racial lines.

We now turn to three other instruments of state policy that we feel have been central to creating structured opportunities for whites to build assets while significantly curtailing access to those same opportunities among blacks. Sometimes the aim was blatantly racial; sometimes the racial intention was not clear. In both instances, however, the results have been explicitly racial. They are the Federal Housing Authority already discussed in chapter 1, the Supplementary Social Security Act, which laid the foundation for our present day Aid to Families with Dependent Children (AFDC); and the United States tax code. In each case state policies have created differential opportunities for blacks and whites to develop disposable income and to generate wealth.

#### *FHA*

As noted in chapter 1, the development of low-interest, long-term mortgages backed by the federal government marked the appearance of a crucial opportunity for the average American family to generate a wealth stake. The purchase of a home has now become the primary mechanism for generating wealth. However, the FHA's conscious decision to channel loans away from the central city and to the suburbs has had a powerful effect on the creation of segregated housing in post-World War II America. George Lipsitz reports in "The Possessive Investment in Whiteness" that in the Los Angeles area of Boyle Heights, FHA appraisers denied home loans to prospective buyers because the neighborhood was "a melting pot area literally honeycombed with diverse and subversive elements." Official government policy supported the prejudiced attitudes of private finance companies, realtors, appraisers, and a white public resistant to sharing social space with blacks.

The FHA's official handbook even went so far as to provide a model "restrictive covenant" that would pass court scrutiny to prospective white homebuyers. Such policies gave support to white neighborhoods like those in East Detroit in 1940. Concerned that blacks would move in, the Eastern Detroit Realty Association sponsored a luncheon on the "the benefits of an

improvement association" where the speaker, a lawyer, lectured on how "to effect legal restrictions against the influx of colored residents into white communities." He went on to present the elements needed to institute a legally enforceable restrictive covenant for "a district of two miles square." Such a task was too much for one man and would require an "organization" that could mobilize and gain the cooperation of "everyone in a subdivision." Imagine the hurdles that are placed in the path of blacks attempts to move into white neighborhoods when communities, realtors, lawyers, and the federal government are all wholly united behind such restrictions!

Restrictive covenants and other "segregation makers" have been ruled unconstitutional in a number of important court cases. But the legacy of the FHA's contribution to racial residential segregation lives on in the inability of blacks to incorporate themselves into integrated neighborhoods in which the equity and demand for their homes is maintained. This is seen most clearly in the fact that black middle-class homeowners end up with less valuable homes even when their incomes are similar to those of whites. When black middle-class families pursue the American Dream in white neighborhoods adjacent to existing black communities, a familiar process occurs. As one study explains it:

White households will begin to move out and those neighborhoods will tend to undergo complete racial transition or to "tip." Typically, when the percentage of blacks in a neighborhood increases to a relatively small amount, 10 to 20 percent, white demand for housing in the neighborhood will fall off and the neighborhood will tip toward segregation.

Even though the neighborhood initially has high market value generated by the black demand for houses, as the segregation process kicks in, housing values rise at a slower rate. By the end of the racial transition housing prices have declined as white homeowners flee. Thus middle-class blacks' encounter lower rates of home appreciation than do similar middle-class whites' in all-white communities. As Raymond Franklin notes in *Shadows of Race and Class*, this is an example of how race and class considerations are involved in producing black-white wealth differentials. The "shadow" of class creates a situation of race. To quote Franklin:

In sum, because there is a white fear of being inundated with lower-class black "hordes" who lack market capacities, it becomes necessary to prevent the entry

of middle-class black families who have market capacities. In this way, middle-class blacks are discriminated against for purely racial reasons.... Given the "uncertainty inherent in racial integration and racial transition," white families—unwilling to risk falling property values—leave the area. This, of course, leads to falling prices, enabling poorer blacks to enter the neighborhood "until segregation becomes complete."

The impact of race and class are also channeled through institutional mechanisms that help to destabilize black communities. Insurance redlining begins to make it difficult and/or expensive for homes and businesses to secure coverage. City services begin to decline, contributing to blight. As the community declines, it becomes the center for antisocial activities: drug dealing, hanging out, and robbery and violence. In this context the initial investment that the middle-class black family makes either stops growing or grows at a rate that is substantially lower than the rate at which a comparable investment made by a similarly well-off, middle-class white in an all-white community would gain in value. Racialized state policy contributed to this pattern, and the pattern continues unabated today.

#### AFDC

Within the public mind and according to the current political debate, AFDC has become synonymous with "welfare," even though it represents less than 10 percent of all assistance for the poor. The small sums paid to women and their children are designed not to provide families a springboard for their future but to help them survive in a minimal way from day to day. When the initial legislation for AFDC was passed, few of its supporters envisioned a program that would serve large numbers of African American women and their children; the ideal recipient, according to Michael Katz in *In the Shadow of the Poor House*, "was a white widow and her young children." Until the mid-1960s states enforced this perception through the establishment of eligibility requirements that disproportionately excluded black women and their children. Southern states routinely deemed black women and their children as "unsuitable" for welfare by way of demeaning home inspections and searches. Northern states likewise created barriers that were directly targeted at black-female-headed-families. They participated in "midnight raids" to discover whether a "man was in the house" or recomputed budgets to find clients ineligible and keep them off the rolls. Nonetheless, by the mid-1960s minorities were disproportionately beneficiaries of AFDC, despite intentions to the

contrary. In 1988 while blacks and Hispanics made up only 44 percent of all women who headed households, they constituted 55 percent of all AFDC recipients.

In exchange for modest and sometimes niggardly levels of income support, women must go through an "assets test" before they are eligible. Michael Sherraden describes it this way in his *Assets and the Poor*:

The assets test requires that recipients have no more than minimal assets (usually \$1,500, with home equity excluded) in order to become or remain eligible for the program. The asset test effectively prohibits recipients from accumulating savings.

As a consequence, women enter welfare on the economic edge. They deplete almost all of their savings in order to become eligible for a program that will not provide more than a subsistence living. What little savings remain are usually drawn down to meet routine shortfalls and emergencies. The result is that AFDC has become for many women, especially African American women, a state-sponsored policy to encourage and maintain asset poverty.

To underscore the impact of AFDC's strictures let us draw the distinction between this program and Supplementary Security Income (SSI), a program that provides benefits for women and children whose spouses have died or become disabled after paying into social security. In contrast to AFDC benefits, SSI payments are generous. More important perhaps, eligibility for SSI does not require drawing down a family's assets as part of a "means test." The result, which is built into the structure of American welfare policy, is that "means tested" programs like AFDC and "non-means tested" social insurance programs like social security and SSI, in Michael Katz's words, have "preserved class distinctions" and "in no way redistribute income." It is also an example of how the racialization of the state preserves and broadens the already deep wealth divisions between black and white.

### *The Internal Revenue Code*

A substantial portion of state expenditures take the form of tax benefits, or "fiscal welfare." These benefits are hidden in the tax code as taxes individuals do not have to pay because the government has decided to encourage certain types of activity and behavior and not others. In *America: Who Really Pays the Taxes?* Donald Barlett and James Steele write that one of the most cherished privileges of the very rich and powerful resides in their ability to influence the

tax code for their own benefit by protecting capital assets. Tax advantages may come in the form of different rates on certain types of income, tax deferral, or deductions, exclusions, and credits. Many are asset-based: if you own certain assets, you receive a tax break. In turn, these tax breaks directly help people accumulate financial and real assets. They benefit not only the wealthy but the broad middle class of homeowners and pension holders as well. More important, since blacks have fewer assets to begin with, the effect of the tax code's "fiscal welfare" is to limit the flow of tax relief to blacks and to redirect it to those who already have assets. The seemingly race-neutral tax code thus generates a racial effect that deepens rather than equalizes the economic gulf between blacks and whites.

Two examples will illustrate how the current functioning of the tax code represents yet another form of the "racialization of state policy." The *lower tax rates on capital gains* and the *deduction for home mortgages and real estate taxes*, we argue, flow differentially to blacks and whites because of the fact that blacks generally have fewer and different types of assets than whites with similar incomes.

For most of our nation's tax history the Internal Revenue Code has encouraged private investment by offering lower tax rates for income gained through "capital assets." This policy exists to encourage investment and further asset accumulation, not to provide more spendable income. In 1994, earned income in the top bracket was taxed at 39.6 percent, for example, while capital gains were taxed at 24 percent, a figure that can go as low as 14 percent. One has to be networked with accountants, tax advisers, investors, partners, and friends knowledgeable about where to channel money to take advantage of these breaks. Capital gains may be derived from the sale of stocks, bonds, commodities, and other assets. In 1989 the IRS reported that \$150.2 billion in capital gains income was reported by taxpayers. While this sounds like a lot of capital gains for everyone to divvy up, the lion's share (72 percent) went to individuals and families earning more than \$100,000 yearly. These families represented only 1 percent of all tax filers. The remaining \$42 billion in capital gains income was reported by only 7.2 million people with incomes of under \$100,000 per year. This group represented only 6 percent of tax filers. Thus for more than nine of every ten tax filers (93 percent) no capital gains income was reported. Clearly then, the tax-reduction benefits on capital gains income are highly concentrated among the nation's wealthiest individuals and families. Thus it would follow that blacks, given their

lower incomes and fewer assets, would be much less likely than whites to gain the tax advantage associated with capital gains. The black disadvantage becomes most obvious when one compares middle-class and higher-income blacks to whites at a similar level of earnings. Despite comparable incomes, middle-class blacks have fewer of their wealth holdings in capital-producing assets than similarly situated whites. As we shall discuss in greater depth in chapter 5, our data show that among high-earning families (\$50,000 a year or more) 17 percent of whites' assets are in stocks, bonds, and mortgages versus 5.4 percent for blacks. Thus while race-neutral in intent, the current tax policy on capital gains provides disproportionate benefits to high-income whites, while limiting a major tax benefit to practically all African Americans.

Accessible to a larger group of Americans are those tax deductions, exclusions, and deferrals that the IRS provides to homeowners. Four IRS-mandated benefits can flow from home ownership: (1) the home mortgage interest deduction; (2) the deduction for local real estate taxes; (3) the avoidance of taxes on the sale of a home when it is "rolled over" into another residence, and; (4) the one-time permanent exclusion of up to \$125,000 of profit on the sale of a home after the age of fifty-five. Put quite simply, since blacks are less likely to own homes, they are less likely to be able to take advantage of these benefits. Furthermore, since black homes are on average less expensive than white homes, blacks derive less benefit than whites when they do utilize these tax provisions. And finally, since most of the benefits in question here are available only when taxpayers itemize their deductions, there is a great deal of concern that many black taxpayers may not take advantage of the tax breaks they are eligible for because they file the short tax form. The stakes here are very high. The subsidy that goes to homeowners in the form of tax deductions for mortgage interest and property taxes alone comes to \$54 billion, about \$20 billion of which goes to the top 5 percent of taxpayers.

These examples illustrate how the U.S. tax code channels benefits and encourages property and capital asset accumulation differentially by race. They are but a few of several examples that could have been used. Tax provisions pertaining to inheritance, gift income, alimony payments, pensions and Keogh accounts, and property appreciation, along with the marriage tax and the child-care credit on their face are not color coded, yet they carry with them the potential to channel benefits away from most blacks and toward some whites. State policy has racialized the opportunities for the

development of wealth, creating and sustaining the existing patterns of wealth inequality and extending them into the future.