Unjust and Unfair: Consequences of the Racial Wealth Divide

Episode 3: A History of Wealth Inequities

[00:00:00.00] [MUSIC PLAYING]

[00:00:11.49] This is In Solidarity, a podcast where we draw connections between power, place, and health and discuss how our lives, our fates are all interconnected. Here are your hosts, Ericka Burroughs-Girardi and Beth Silver.

[00:00:26.25] Hi, there, and welcome to episode 3 of In Solidarity. I'm your host, Ericka Burroughs-Girardi here with my co-host, Beth Silver. Hi, Beth. How are you?

[00:00:36.36] Doing great, Ericka, thank you. I can't believe we're already halfway through our miniseries on the racial wealth gap and how it impacts our health and well-being. We want to thank you for joining us in these conversations.

[00:00:48.48] We've heard from two impressive scholars, author Donald Cohen and our colleague at County Health Rankings, Dr. Christine Muganda. There's more to come. Once again, this is In Solidarity, connecting power, place and health, a podcast from County Health Rankings and Roadmaps. This podcast is about how our lives are interconnected and how that impacts communities' health.

[00:01:10.62] In this, our third installment in our miniseries on the racial wealth gap, we're going to take a step back, learn about how we got here, the history of the racial wealth gap in the United States.

[00:01:20.97] To help us do this, we'll be speaking with Dr. Dalton Conley of Princeton University. Dr. Conley is the Henry Putnam University professor in sociology and a faculty affiliate at the Office of Population Research and the Center for Health and Well-being. His research has centered on socioeconomic and health status through the generations. And he's written a landmark book on the racial wealth gap called Being Black, Living in the Red.

[00:01:48.06] So glad he's joining us. We're lucky to have him. In our last episode, Ericka, you touched on broken promises after the Civil War, when the federal government planned to give formerly enslaved people 40 acres and a mule and then rescinded that policy. It was a first chance at accumulating wealth just gone. At the same time, the Homestead Act provided land to more than a million and a half white Americans through the 1930s.

[00:02:13.53] Unfortunately, the 20th century is full of deliberate acts to restrict Black families from building wealth. Consider the Tulsa Massacre, where, in 1921, white residents, including police and government officials, killed 300 Black residents and leveled a thriving neighborhood that was called Black Wall Street, leaving 10,000 homeless.

[00:02:36.18] Generations of wealth just erased overnight, Ericka. And by the way, we're not just talking about the rich. When we talk about wealth, we're starting with the basics, the minimum, like three months savings, access to higher education, access to home ownership, affordable rental housing, and a secure retirement.

[00:02:55.26] This framework for economic needs, by the way, is expertly laid out in the report from the Institute for Policy Studies, "The Road to Zero Wealth, How the Racial Wealth Divide is Hollowing out America's Middle Class." And that report outlines how the racial wealth divide impacts not just Black Americans but Hispanic Americans, Native Americans, and Asian-Americans.

[00:03:17.55] That's right, Beth. We're not talking about getting rich here. We're pointing out that meeting these basic economic needs and helping families through their generations means equal opportunities, to go to college without accumulating massive debt, to be able to move for jobs, to enjoy the financial security and other advantages of home ownership. Consider the New Deal and other federal programs to build a strong middle class. Black Americans were largely excluded, as they were from the GI Bill when it was first implemented.

[00:03:51.96] Then redlining to digital redlining today-- the federal tax code-- so much history to explore where people of color have been excluded from government-supported wealth-building programs. It's worth repeating. The typical white family has 10 times the wealth of the typical Black family in this country and seven times the wealth of the typical Hispanic family. I know Dr. Conley will have insights into all of this. Let's bring him into the discussion.

[00:04:21.27] Absolutely. Please help us welcome Dr. Dalton Conley.

[00:04:24.81] [MUSIC PLAYING]

[00:04:30.86] Welcome, Dr. Conley. Thank you so much for being with us. You know, on In Solidarity, the theme that runs through our show is the idea of social solidarity, that our lives and fates are connected in ways that are not always obvious. Let me start with that question. What does social solidarity mean to you? And how does it influence the work that you do?

[00:04:53.07] I guess social solidarity to me means that people should have a recognition that our fates are not completely independent of each other, and our fates are intertwined. And that's something that, in American society, we often forget, because we have such a strong streak of individualism. We think that, if we accumulate wealth-- to jump to the top of what we're going to talk about-- that we did that ourselves, I think in the famous words of Mitt Romney.

[00:05:24.29] But we also have to recognize that we relied on a lot. If we're so fortunate to acquire wealth, we relied on a lot of other people, public goods, a long history of development in the United States. So I think, from my kind of quantitative socioeconomic perspective, thinking about solidarity means thinking about those economic interconnections.

[00:05:49.22] Mm-hmm. Your first book, Being Black, Living in the Red, is required reading for anyone interested in the racial wealth gap. You're one of the first scholars to point out that wealth-- and we're talking about intergenerational wealth here-- is even more important than income when looking at racial inequality. Why is wealth a better measure than income?

[00:06:12.76] For years, we were using income as a sort of just a general indicator of a family's economic well-being simply because that's the data that we had as social scientists, and journalists, and demographers, and so on. But something happened in the 1980s. I don't know what it was. It was like Reagan's morning in America or something.

[00:06:31.30] But we started collecting wealth data in national surveys. And that allowed us for the first time to actually assess independently the effect of income, the effect of wealth, and the effect of a parent's occupation for that matter, and a parent's education level independently on the offspring. And what we found in my earlier studies was that-- it turned out income didn't really matter. The parents occupation, the prestige of their occupation, whether they were a line worker, or a doctor, or what have you didn't really matter.

[00:07:06.76] The two factors that mattered were a parent's education level and the parental net worth. And just to define net worth, that's if you add up everything you own and you try to sell it all in the stock market, your home on eBay, whatever you got, and then paid off all your debts, that would be your net worth. And unfortunately, for many of us, that's negative. For a lot of American families, that's positive.

[00:07:29.86] But that figure, second only to parental education, was the strongest predictor of how kids did in school and in how they launched in life after school. Now, why is wealth more important than income? Well, if you think about it-- I don't know if you've ever paid for kid's college education.

[00:07:49.99] You're not, like, saying, OK, honey, our kids are going to college now. Let's cancel HBO. And I'll work a couple extra hours. And we'll make it work out of our paychecks.

[00:08:02.68] No, that's not how we pay for something as massive as college education. We pay for it from a pool of resources that we may or may not have accumulated over not just one generation but multiple generations. And so it turns out that wealth-- and also reflected in what school district we live in for K through 12 education. Because housing wealth is the primary vehicle of wealth accumulation for the typical American family. And that's correlated with school quality through local property taxes. So there's many ways that wealth can affect children's life chances. And income just pays for food, shelter, and HBO if you're lucky.

[00:08:45.76] Yeah. Yeah. Now, was this view-- the way you see wealth as a measure-- was that considered controversial at the time when you published your book in 1999? Did you receive push back from that?

[00:08:59.89] Not really. Actually, I think it was a welcome, as people after the fact thought it was really obvious. And maybe it's just that people didn't have the data yet to discover it. But I had intergenerational data, data on parents, and children, and in some cases, grandparents, as well. So I could see how wealth flowed through generations and how it impacted other life opportunities for kids.

[00:09:23.98] So that was my contribution. And it was remarkably well received. I rate it as one of the less controversial studies I've done in my lifetime.

[00:09:35.44] You mentioned history. We want to dig into the legacy of this massive divide. What were some of the deliberate acts that brought us to this point? And what are the things that endure or perpetuate the wealth divide?

[00:09:50.23] That's a really important and comprehensive question. We can go back, of course, to slavery and involuntary migration to these shores that Black Americans experienced and unpaid, unrequited labor for that period through the Civil War. After the Civil War, there was talk among radical Republicans-- being a radical Republican back in those days meant something else-- radical Republicans after the Civil War of what we would today call reparations, of the famous phrase 40 acres and a mule, of land redistribution from plantations, and other forms of self-help policies to get the now freed men and women on their economic feet.

[00:10:37.87] Instead, that never came. We got a backlash during Reconstruction in the South. And that engendered a system of sharecropping, which kept African-American farmers in a cycle of just barely keeping their heads above water. There was the Southern Homestead Act of 1862, which did provide land for the taking, but it turned out to be mostly swamp land.

[00:11:07.03] And then the Homestead Act, which kind of caused a big migration westward of a lot of Americans. Black Americans found that their claims to deeds were not enforceable. So in other words, they could go out to Wyoming or Colorado, mark out a ranch, but then a white individual could sort of trump that claim by also claiming it. So there were a lot of racist policies in the 19th century. Some of those fell away in the 20th century, but they were replaced by other obstacles.

[00:11:39.03] So as the Great Migration started occurring and many African-Americans moved to northern cities, the banks instituted a policy called redlining. And the red line term comes from the fact that they would rate different neighborhoods based on their sense of risk of default of the loans in those neighborhoods. And they would be rated 1 to 4. There were four groups.

[00:12:06.76] And the bottom group, 4, they would circle on maps with a red line. And they would have no loans go to that category of houses or apartments. And then, of course, turns out that that was disproportionately where African-Americans lived. So they were not able to access credit to become homeowners.

[00:12:27.16] And in the early 20th century, not many Americans were homeowners. But starting in the '20s, we see a growth that really accelerated in the second half of the 20th century. And Blacks were still excluded from that due to that residential concentration and segregation in red-lined zones but also because they were not as eligible for federally-subsidized FHA, Federal Housing Administration, loans that guaranteed a lower interest rate for VA loans after World War II and so forth.

[00:13:02.41] This is like a marathon answer, because there's so many factors. In the meantime, in order to get the New Deal through Congress, FDR cut a devil's bargain with the Southern

Democratic conservative senators that controlled the committees that wanted to exclude African-Americans from the social safety net as much as possible. And while in the 19th century, you could pass the Black Codes, by the 20th century, in federal government at least, you couldn't be that explicit to say, Blacks are not eligible for Social Security.

[00:13:37.18] But what they did do is they excluded domestic workers and agricultural workers from the Social Security system. That was, if I remember my statistics correctly, something like 2/3 of the African-American workforce were in those two sectors at that time. If you go forward from that mid-20th century period, we still saw for many years-- it wasn't until Clinton outlined redlining that it became illegal. And there's still been evidence that there's things like buyer discrimination in the housing market by real estate agents and by sellers. Minorities pay higher interest rates, are more likely to be turned down for a loan.

[00:14:20.33] So there are a number of factors. People are trying to chip away at all those as we speak over the last couple of decades. But it's kind of like whack-a-mole, because one thing will be addressed, and something else will pop up. And once this sort of great wealth inequity gets baked into the system, you don't even need those explicit policies or programs anymore. A gap becomes self-perpetuating.

[00:14:48.16] I think the large part of the gap today is not due to those factors. It's due to the fact that a typical white family is likely to have family wealth in their past generations that is directly or indirectly passed on-- directly through gifts and inheritance but also indirectly, meaning like one child might graduate college with zero debt, because they had family that could pay for it through wealth. And another child might graduate in the hole with a big student loan that they have to dig out of before they can even start accumulating wealth. That's just one example. But I think most of the ongoing effects are due to just unequal economic circumstances.

[00:15:33.92] So the fact that it's self-perpetuating, does that mean that the gap will continue to widen?

[00:15:40.89] Some people think that the gap will narrow. Because as incomes converge, inevitably wealth might lag. But it'll eventually catch up. It might be the last indicator that we see converge.

[00:15:54.03] Other people think that it will widen. Because to put it simply, it takes money to make money. And the more assets you have, the more you're able to access higher-yield investments. You're able to take greater risks and so on.

[00:16:09.30] And certainly in absolute terms, the gap widens. In my observations in the data, the gap has been remarkably stable. I mean, it fluctuates with the stock market.

[00:16:24.27] When the stock market is down, the gap is smaller, because wealthier people who are disproportionately white tend to have more money in securities. So when they lose that money, the gap shrinks a bit. And it widens when the stock market is on a big bull run tear.

[00:16:40.44] But it's more or less-- I've been saying for the last 25 years, $0.10 on the dollar, that the median or typical African-American family has about $0.10 to every dollar of wealth for the median or typical white family. And yeah, it's been up to 1 to 12 and down to 1 to 8 at certain periods, but it's been hovering around that.

[00:17:03.36] Dr. Conley, in this country, families build a lot of their wealth in their homes. How does home ownership impact the wealth gap?

[00:17:13.73] Home ownership is the single most important asset that most American families have. For super rich families, the value of their primary residence is probably dwarfed by other assets. But for the vast majority of us, we're living in our piggy bank.

[00:17:32.12] And the way home ownership is structured in the United States really facilitates that. Because it's a highly-leveraged investment. You can put down 20%-- sometimes as little as 10% or even 5% if you have an FHA-backed mortgage. And you're essentially living in an asset that's worth 5, 10, or 20 times what you've put in as a stake.

[00:17:56.39] Of course, you're paying the bank. And you're paying interest. But often, those interest rates are fixed over the life course. If you weren't owning your home, you'd have to be paying rent anyway.

[00:18:08.48] So the net cost of becoming a homeowner is incremental. It's not like they're just buying stocks, where that money could be used to pay for expenses that you would be incurring in a day-to-day level. So it's become sort of the bread and butter of how American families accumulate wealth.

[00:18:26.96] Black families are at a disadvantage in this system for a number of reasons. We talked about the different interest rates that families pay. The most important factor, though, is just the difference in rates of accumulation or changes in housing prices in Black and white neighborhoods. So the majority Black neighborhoods tend to have prices of houses that rise more slowly than in white neighborhoods.

[00:18:58.67] But the housing market, because it has this weird character that it's both an asset like buying and selling stock-- and then we care a lot about that part-- but it's also something we care about because we live in it. It's our community. It's a status symbol, et cetera, et cetera. So it really gets perverted in that way and soiled by past and current racial dynamics. Rather than if we were just talking about buying soybean futures, there would be no effect of race on that, for example.

[00:19:34.13] Yeah.

[00:19:35.21] You know, restrictions around housing seem, as we're talking, have played a major role wealth out of the hands of Black Americans. You cite in your book that fewer than 1% of mortgages issued between 1930 and 1960 went to Black Americans. Can you tell us about the government's role in some of these 20th-century housing discrimination practices?

[00:19:59.84] Yeah. The US government, throughout the 20th century and now, has made a conscious choice to make home ownership a primary vehicle of wealth accumulation or a family social safety net or nest egg. They've done it with-- and we still do it-- with the mortgage interest deduction, that your net cost of taking out a big mortgage is lower, because you can deduct the interest you pay from your taxes. They do it through the state and local tax deduction, because if you have more valuable home, you're paying higher property taxes, but you get to deduct those. So it helps soften that blow.

[00:20:43.55] And then they've done it explicitly through programs like the VA and FHA mortgage programs and then later Fannie Mae backed mortgages, where the government is essentially taking some of the risk so that the homeowner or the purchaser can get a lower interest rate. If I'm the bank and I know that your loan is backed by the government Veterans Administration or the Federal Housing Administration, then I can offer you a lower interest rate, because it's less risky. And those have disproportionately gone to white suburban households.

[00:21:22.88] In our next episode, we'll get into reparations and the wealth divide. But what do you think are some of the solutions to address the racial wealth gap? And along those lines, a common perception to the historical drivers of the wealth gap seem to be it isn't our responsibility to address decisions that were made by previous generations. What do you say to that?

[00:21:45.71] Taking that last part first, what do we say to people who say, look, I earned my money. Whether there was wrongs done 150 years ago has nothing to do with my wealth. But as I've talked about before, wealth-- unlike income, which you have to kind of keep showing up at work each week to get your paycheck for-- wealth has a much more sort of the sediment of history. And it has much more long-term, intergenerational influences.

[00:22:17.51] So even if you were not a slaveholder in Charleston in 1850, maybe your ancestors worked for Aetna insurance company in Hartford, Connecticut, and they made a lot of money insuring slave capital. Or maybe you weren't even directly working for Aetna, but you ran a little dry goods store in Hartford, but all your customers worked for Aetna so that Aetna was the big driver of that economy. So you were all connected going back to that solidarity question.

[00:22:48.98] So it's hard to say, something doesn't have to do with me today. That said, I, in general, favor race-neutral solutions that tend to be progressive, because I think they are politically more viable in our country. So I've discussed reparations direct, like the racial reparations-- but also becomes very difficult to calculate, who's eligible, what does that mean to someone who immigrated from Jamaica in the last year. Are they eligible?

[00:23:19.28] Likewise, for a white who immigrated from the Soviet Union in 1990, I don't know. It's much more easy, in my view at least, to design policies to help with low-wealth families. Those families, as I mentioned, because of the 10 to 1 gap, are disproportionately going to be African-American families that will benefit from a wealth policy.

[00:23:45.66] So I would have wealth redistribution through a much more massive version of what Senator Cory Booker has talked about, for example, with baby bonds, where the government cedes an investment account for kids when they're born. And that can be means tested based on the wealth of the family. And therefore, it can be very racially progressive and redistributive. But really, if we want to make a big dent, we have to just explicitly give wealth to families that do not have it and give them the tools to grow that wealth.

[00:24:21.62] If it were race neutral, does it actually impact the racial gap?

[00:24:28.85] Yes, because of the 10 to 1 gap. From a policy or political perspective, you can do an enormous amount-- yes, Black billionaires will not get any help. But disproportionately African-American families will receive the majority of that kind of redistribution. Yes, poor white families, low-wealth white families will, as well.

[00:24:55.98] But you want an interracial coalition to build political support for something like that anyway. And that will, I think in the long run, be good for America, as well. Because economic inequality, in general, has gotten so staggering.

[00:25:12.14] Wow.

[00:25:12.45] Yeah. Great.

[00:25:13.28] Well, great stuff. Thank you so much, Dr. Conley. We really appreciate this. Again, I hope we can have you back, because I would love to get into some of your more current research.

[00:25:24.92] That would be great.

[00:25:26.11] [MUSIC PLAYING]

[00:25:31.11] What a great conversation with Dr. Conley. I think the more conversations we have, the more I'm learning. And this was a sobering one but very insightful.

[00:25:40.76] Agreed on both counts. The deliberate and ongoing way Black Americans and other people of color were and continue to be prevented from building wealth, the fact that wealth or the lack of it impacts everything, our communities, our health.

[00:25:55.74] And the fact that the share of the country's wealth for Black Americans only moved from 0.5% at the end of the Civil War to 1% in 1990 is really sad. Some experts believe that gap could be worsening. But the good news, as we heard from Dr. Conley, is that there are things that we can do about this and, in some cases, already are doing.

[00:26:17.72] On that note, our next guest is Dr. Andre Perry. He's a senior fellow with the Brookings Institution and a scholar in residence at American University. In 2020, he co-authors a Brookings policy brief called "Why We Need Reparations for Black Americans." It's a piece that's chock full of solutions.

[00:26:36.29] We're so excited to talk with Dr. Perry in our next episode. Until then, I'm Beth.

[00:26:41.42] And I'm Ericka.

[00:26:42.92] And we're In Solidarity, connecting power, place, and health.

[00:26:47.34] [MUSIC PLAYING]

[00:26:50.25] Now it's your turn to join the conversation. Head over to our Podcast page on CountyHealthRankings.org, and share your thoughts with us. The question for this episode is, is a race-neutral solution the answer to the racial wealth divide in this country?

[00:27:09.20] [MUSIC PLAYING]

[00:27:12.68] In Solidarity is a production of County Health Rankings and Roadmaps from the University of Wisconsin with funding from the Robert Wood Johnson Foundation. Views expressed by guests of In Solidarity are their own. Their appearance on In Solidarity does not imply County Health Rankings and Roadmaps endorsement. To learn more about our guests' work, to discover additional resources on the topics we've discussed, or to find out how healthy your community is, visit us at CountyHealthRankings.org.